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# Agricultural Finance Outlook

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Economics and  
Statistics Service

U.S. Department of  
Agriculture

Approved by the  
World Food and  
Agricultural Outlook  
and Situation Board

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Many persons provided help in collecting the survey data and other information in this report. These included employees of commercial banks, the American Bankers Association, and life insurance companies, economists of the Federal Reserve System, State Directors and other employees of the Farmers Home Administration, presidents and other employees of the Federal Land Banks and the Federal Intermediate Credit Banks, employees of the Farm Credit Administration and the Extension Service and officials of the credit corporations of farm machinery manufacturing companies.

The assistance of economists in the Economics and Statistics Service was of much help in the preparation of the Type of Farm section and some other parts of this report:

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Approved by  
The World Food and Agricultural Outlook  
and Situation Board  
and Summary released  
November 17, 1980

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## SUMMARY

In 1980 many farmers were faced with major financial problems brought about by high interest rates and tight credit in the Spring and wide spread drought. Farmers in drought-stricken areas will enter 1981 heavily burdened with debt because of the need to obtain extensions and renewals of existing debt. Farmers not affected by the adverse weather should be in a stronger financial situation. Interest rates are expected to remain high in 1981, however, they are expected to be lower, on average, than this year's rates.

Net farm income will be between \$23 and \$25 billion in 1980, down from \$31 billion in 1979. However, projected higher farm prices, lower interest rates, and a decline in the rate of increase in production expenses should contribute to a higher net farm income in 1981—currently forecast from \$27 to \$32 billion. The higher farm prices forecast for 1981 are due to a substantial drop in the supplies of many commodities as well as expectations of strong export demand. Cash income from farm and nonfarm sources rose slightly in 1980 and is expected to increase substantially in 1981.

As a whole, farmers are likely to be in an improved financial position by the end of 1981. However, hog and poultry producers' incomes are expected to improve only marginally next year, while producers of vegetables, fruits, and nuts are forecast to have lower incomes in 1981.

Gross investment in 1980 is forecast at almost \$12 billion, down from \$21.6 billion in 1979 and considerably below the nearly \$41 billion projected for 1981. The reduction in 1980 reflects widespread postponement of purchases of capital items because of low income prospects and high interest rates. Delayed capital purchases and refinancing of short-term debt resulted in a decline in the growth of nonreal estate debt. Higher farm incomes in 1981 may slow the rate of increase in real estate lending while nonreal estate lending accelerates to finance delayed purchases of machinery and equipment.

The value of farm assets is expected to rise almost 9 percent in 1980 to a forecast total of about \$1 trillion—the smallest increase in both absolute and percentage terms since 1977.

Total farm debt is projected to rise almost 15 percent in 1980 and an additional 15 percent in 1981. The shares of total farm debt outstanding held by the Farm Credit System and by the Farmers Home Administration are expected to rise during 1980.

Low net farm income, together with high interest rates and tight credit conditions reduced activity in the farm real estate market. Real estate values are expected to rise between 7 and 12 percent in 1980 and between 11 and 16 percent in 1981. This compares with a 15 percent increase in 1979.

## 1981 BALANCE SHEET OF THE FARMING SECTOR

The value of farm assets is expected to total \$999.3 billion on January 1, 1981 (table 1, and figure 1). That will be \$80.4 billion or 8.8 percent more than at the beginning of 1980 and the smallest annual dollar and percentage gain since 1977. As in other years, farm real estate value will account for most of the increase, in this case \$59 billion or 73 percent.

The 8.8 percent rate of gain in the value of farm real estate forecast for 1980 is considerably less than during 1978 and 1979 when real estate values rose 14.1 and 14.5 percent, respectively.

The value of physical farm assets other than land and buildings will increase about \$19.6 billion during 1980 to total \$228.7 billion on January 1, 1981. The prospective 9.4 percent increase since January 1, 1980 is well below the 15-percent rise during 1979. All categories of assets had smaller increases in

value during 1980 than last year but the item showing the greatest decline in rate of growth was farm machinery and motor vehicles. Preliminary estimates indicate that farm machinery value will increase about \$4 billion between January 1, 1980, and January 1, 1981, less than half the increase during 1979. Sales of new farm tractors and machinery in 1980 were down sharply from recent years.

The growth in the total value of livestock and stored crops between January 1, 1980 and January 1, 1981 will not quite match their value increase during 1979. Growth of financial assets slowed in 1980 and on January 1, 1981 are expected to exceed last year by less than 5 percent.

By January 1, 1981, farm debt outstanding is expected to total \$180.5 billion. The prospective \$23.2 billion increase will be slightly more than the previous \$21.2-billion rise in 1979. There has been a

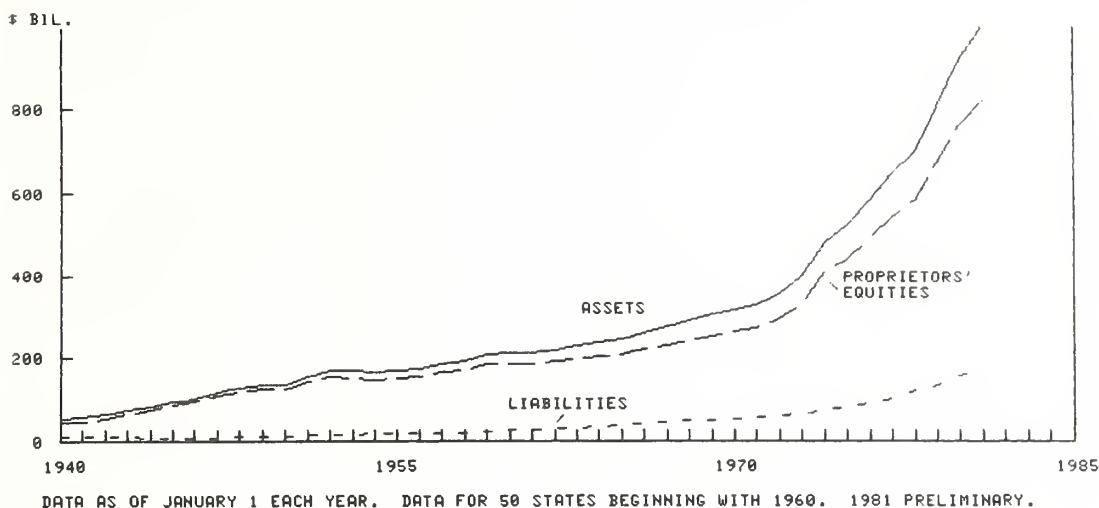
Table 1—Balance sheet of the farming sector, January 1, 1970-81<sup>a</sup>

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 <sup>b</sup>
<i>Billion dollars</i>												
<b>Physical assets:</b>												
Real estate assets . . . . .	215.8	223.2	239.6	267.3	327.7	360.4	407.7	473.0	513.7	586.1	671.3	730.3
Nonreal estate assets <sup>c</sup> . . . . .	76.3	78.8	86.5	99.7	120.9	115.3	127.7	136.0	149.5	181.8	209.1	228.7
<b>Total physical assets . . . . .</b>	<b>292.1</b>	<b>302.0</b>	<b>326.1</b>	<b>367.0</b>	<b>448.6</b>	<b>475.7</b>	<b>535.4</b>	<b>609.0</b>	<b>663.2</b>	<b>767.9</b>	<b>880.4</b>	<b>959.0</b>
<b>Financial assets:</b>												
Commercial bank deposits and currency . . . . .	11.9	12.4	13.2	14.0	14.9	14.0	14.5	14.8	15.2	15.5	15.9	16.2
Other financial assets <sup>d</sup> . . . . .	10.9	11.6	12.5	13.8	15.0	15.7	17.1	17.9	19.2	21.0	22.6	24.1
<b>Total financial assets . . . . .</b>	<b>22.8</b>	<b>24.0</b>	<b>25.7</b>	<b>27.8</b>	<b>29.9</b>	<b>29.7</b>	<b>31.6</b>	<b>32.7</b>	<b>34.4</b>	<b>36.5</b>	<b>38.5</b>	<b>40.3</b>
<b>Total farm assets . . . . .</b>	<b>314.9</b>	<b>326.0</b>	<b>351.8</b>	<b>394.8</b>	<b>478.5</b>	<b>505.4</b>	<b>567.0</b>	<b>641.7</b>	<b>697.6</b>	<b>804.4</b>	<b>918.9</b>	<b>999.3</b>
<b>Debt claims:</b>												
Real estate debt . . . . .	29.2	30.3	32.2	35.7	41.3	46.3	51.1	56.6	63.7	70.8	82.1	96.1
Nonreal estate debt . . . . .	21.1	22.3	24.6	27.8	32.1	35.2	39.4	45.0	51.1	60.0	70.7	79.7
CCC nonrecourse loans . . . . .	2.7	1.9	2.3	1.8	.7	.3	.3	1.0	4.5	5.3	4.5	4.7
<b>Total debt claims on farm assets . . . . .</b>	<b>53.0</b>	<b>54.5</b>	<b>59.1</b>	<b>65.3</b>	<b>74.1</b>	<b>81.8</b>	<b>90.8</b>	<b>102.6</b>	<b>119.3</b>	<b>136.1</b>	<b>157.3</b>	<b>180.5</b>
<b>Equity . . . . .</b>	<b>261.9</b>	<b>271.5</b>	<b>292.7</b>	<b>329.5</b>	<b>404.4</b>	<b>423.6</b>	<b>476.2</b>	<b>539.1</b>	<b>578.3</b>	<b>668.3</b>	<b>761.6</b>	<b>818.8</b>
Debt to asset ratio . . . . .	16.8	16.7	16.8	16.6	15.5	16.0	16.0	16.0	17.1	16.9	17.1	18.1
Debt to equity ratio . . . . .	20.2	20.1	20.2	19.8	18.3	19.3	19.1	19.0	20.6	20.4	20.7	22.0

<sup>a</sup>Beginning with 1975 all data are on basis of new definition of farms, that is, places with annual sales of at least \$1,000. <sup>b</sup>Preliminary estimate. <sup>c</sup>Includes machinery and motor vehicles, household furnishings and equipment and inventories of crops (including crops held as security for CCC loans) and livestock. <sup>d</sup>Includes U.S. savings bonds and investments in farmer cooperatives. Does not include holdings of common stocks and savings accounts in savings institutions other than banks, as data on these assets are not available.



**FIG. 1 BALANCE SHEET OF THE FARMING SECTOR**



notable slowdown in farm debt expansion in nonreal estate loans from banks which will increase an estimated \$0.4 billion compared with recent annual gains of \$2.0 to \$2.5 billion. The increase in production credit association (PCA) loans outstanding is projected to be about half the increase between January 1, 1979, and January 1, 1980. Commodity Credit Corporation (CCC) loans outstanding to farmers on crops, storage facilities, and equipment are estimated to total about \$4.7 billion on January 1, 1981, slightly above the 1980 figure. However, record increases in Farmers Home Administration debt outstanding (\$4.0 billion) as well as for merchants, dealers, and other miscellaneous lenders (\$2.3 billion) will largely offset the slowdown in the growth of bank and PCA debt outstanding. The decline in the growth of bank and PCA debt outstanding are probably due to lower demand brought on by the lower farm income prospects.

Farm real estate loans outstanding at the beginning of 1981 are expected to total about \$96.1 billion, some \$14 billion more than a year earlier. About one-half of the increase will be accounted for by debt held by Federal land banks which is expected to increase a record \$6.9 billion (23 percent) and total \$36.5 billion for the year, nearly two-fifths of all real estate loans outstanding.

An estimated 2.4 percent rate of return of net farm earnings to equity in farm production assets for 1980 is substantially below the 4.1 percent rate of return in 1979. The value of equity capital increased from 1979 but the net income in 1980 is lower, hence the much lower rate of return.

### Traditional and New Farm Sector Accounts

The values of assets and the amount of debt outstanding given in this report follow the methodology of the traditional balance sheet of the farm sector used since 1940. The user is cautioned that the data in this series differ from those given in the new farm sector income and balance sheet accounts to be published in the new U.S. Department of Agriculture, Statistical Bulletin, *Economic Indicators of the Farm Sector: Income and Balance Sheet Statistics, 1979*. The series differ in concept.

Briefly, the traditional balance sheet data includes the total value of most assets found on the ordinary farm, such as land and buildings, livestock, stored crops, automobiles, trucks, tractors and other machinery, household equipment and furnishings, bank demand deposits (checking accounts), bank time deposits (savings accounts), U.S. savings bonds, and the net worth of farmer cooperatives. Some of these assets are often used for farm family purposes. The new farm sector accounts limit farm assets to those used in producing farm products. The statistics are similar in concept to the traditional farm production assets, but the new series excludes values for farm dwellings, household equipment and furnishings, time deposits in banks, U.S. savings bonds, and a portion of the auto and truck values representing use by the farm family. The total farm assets value by the new methodology is substantially smaller than the total value derived by the traditional method. For example, on January 1, 1980, total asset

value by the traditional method was \$918.9 billion, whereas under the new method the total value was \$821.0 billion.

The amount of farm debt outstanding differs between the traditional and new series in that the debt shown in the new series excludes an estimated portion for family living purposes. The outstanding debt, therefore, is a smaller amount in the new series than in the traditional. To illustrate, under the traditional methodology, total farm debt outstanding on

January 1, 1980, was \$157.3 billion and under the new system it was \$146.4 billion.

Availability of historical data also differs between the two series. Annual data for the traditional series are available beginning with 1940. Data under the new series begins with January 1, 1977, with plans to possibly carry them back to January 1, 1968. Current plans also call for discontinuing the traditional balance sheet data series after 1982 or 1983.

## FARM REAL ESTATE VALUES

Farm real estate prices rose by about 15 percent during 1979. Through June 1980, it appears that land values generally remained unchanged, with small increases in some regions being offset by decreases in others. For the period February 1980 to February 1981, average land values are expected to increase between 7 and 12 percent. Most of this increase should occur during the winter when the real estate market becomes more active. For 1981, land value changes will be affected by prospects for net farm income and the level of interest rates. If farm income increases substantially and interest rates average lower, increases in farmland prices would be expected to match or exceed the general rate of inflation.

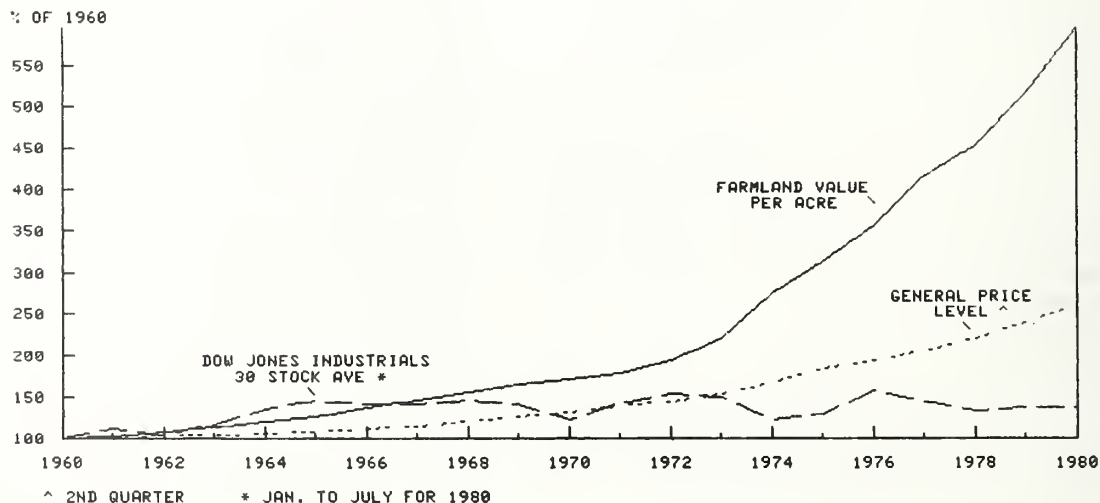
Over the last 10 years, farmland prices have increased at an average rate of 13 percent per year. The inflation rate has averaged only 7.5 percent over

the same period, so the constant dollar value of farmland has increased substantially (figure 2).

The total value of farm real estate was \$671 billion on January 1, 1980. Building values accounted for about 17 percent of this total. Over the last 10 years, the total value of farm real estate has increased by 211 percent. This increase reflects higher prices for farmland and farm buildings since the quantities of land and buildings have changed little over time.

Net farm income has declined in 1980. Interest rates have been high and credit has often been tight. These factors, in addition to adverse weather conditions, have apparently reduced activity in the farm real estate market. For the first half of 1980, the Federal Reserve Banks (FRBs) of Chicago and Kansas City reported slow-to-negative growth in farmland values in their districts. The Richmond and

**FIG. 2 FARMLAND VALUE PER ACRE COMPARED WITH DOW JONES INDUSTRIAL STOCK AVERAGE AND THE GENERAL PRICE LEVEL**





Dallas FRBs reported small increases in land prices for the same period. In most of these districts it was believed that land values would remain stable during the third quarter of the year.

Farm lenders were surveyed in September to obtain their estimates of land price changes. In general, the lenders thought that land prices had increased an average of 5 percent since February. Land value decreases were reported by lenders in only four states. For the period September to Febru-

ary 1981, the lenders thought that land prices would rise an average of 5 to 7 percent.

Although activity in the land market appears to have slowed substantially over the past 9 months, land prices are expected to rise faster in the coming year. Many successful farmers will be using part of this year's income to buy land to enlarge their farms. The demand for farmland will also be increased by expectations of higher net farm income in 1981.

## FARMERS EXPERIENCE UNUSUAL FINANCIAL CONDITIONS IN 1980

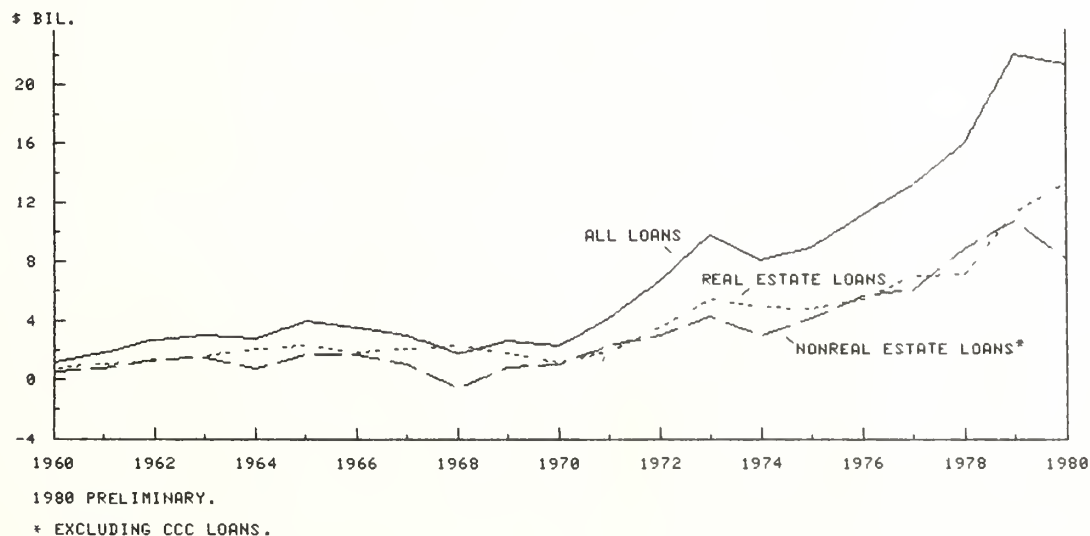
The financial conditions of the farm sector in 1980 have been influenced by many factors the most important of which were; 1) extremely high interest rates during the Spring planting season; 2) high input prices relative to farm product prices, exerting downward pressure on net farm income; and 3) a severe drought in parts of the United States which substantially reduced crop output and disrupted livestock production. The first two factors combined to reduce farmers' ability to service loans needed to buy operating inputs and capital investments, causing many to reduce the use of purchased inputs and delay the purchase of machinery and equipment.

Furthermore, many commercial banks were faced with credit controls and low liquidity, reducing their ability to provide funds in early 1980. This situation was particularly acute in Minnesota, Iowa, North Dakota, South Dakota, Nebraska, and Missouri where transportation problems depressed local grain prices, forcing farmers to hold on to their crops, reducing deposits at local banks.

Both the Farm Credit System (FCS) and Farmers Home Administration (FmHA) responded to this situation by increasing their farm lending thereby continuing their trends toward a higher market share of total farm debt outstanding. The FCS was able to expand its share due to its ability to tap national money markets for funds, its relatively low interest rates due to its practice of basing its interest rates on its average cost of funds, and its immunity to State usury laws. The FmHA lent \$2.185 billion during fiscal 1980 through its Economic Emergency Loan Program after having received an additional appropriation of \$2 billion for that program in March.

While the drought produced serious hardships in several regions of the country, the resultant rise in prices caused higher earnings in areas not struck by the drought. However, the drought stricken areas are experiencing lower net earnings and increased debt repayment difficulties. Some of these difficulties will be eased through ASCS disaster payments, FmHA

FIG. 3 ANNUAL CHANGE IN FARM DEBT



disaster loans and economic emergency loans, and other refinancing of existing debt. Many of these farmers will be going into the 1981 production year heavily in debt making a good income year in 1981 imperative for them.

A great source of uncertainty for farmers today is the cost of debt funds through 1981. With the money supply growing far above target rates it is widely expected that the Federal Reserve System (FRS) will slow the growth in the money supply substantially in order to meet their stated objectives. This may cause a substantial rise in interest rates. The question is whether or not the FRS will pull back the growth rate gradually or suddenly and when the contraction will begin? If the FRS adopts a consistent growth policy at rates comparable to the growth in the economy, bringing inflationary expectations under control, farmers should have access to reasonably priced debt funds in the spring of 1981.

## Farm Real Estate Debt<sup>1</sup>

Total real estate farm debt rose about 17 percent during 1980 to a forecasted level of \$96.1 billion for January 1, 1981 (table 2). This level of real estate debt constitutes 53.2 percent of total farm debt, an increase of 1 percentage point over the 1980 figure.

<sup>1</sup> 1979 estimates for farm real estate debt held by life insurance companies and individuals and others have been revised to \$10,478 million and \$23,058 million, respectively.

The Federal land banks are expected to continue to increase their market share of real estate loans outstanding from 36 percent to 38 percent during 1980 (table 3). There are several reasons for this phenomenon. First, interest rates rose rapidly in the spring giving FLBs a competitive advantage due to its policy of basing interest rates on their average

Table 2—Total farm debt 1971 and 1976-81<sup>a</sup>

Year	Real estate debt	Nonreal estate debt			Total debt	
		Excl. CCC price support and storage loans	CCC price support and storage loans	Incl. CCC price support and storage loans	Excl. CCC loans	Incl. CCC loans
		Million dollars outstanding Jan. 1				
1971 . . . . .	30,346	22,262	1,876	24,138	52,608	54,484
1976 . . . . .	51,069	39,406	358	39,764	90,475	90,833
1977 . . . . .	56,559	45,061	1,012	46,073	101,620	102,632
1978 . . . . .	63,641	51,142	4,489	55,631	114,783	119,272
1979 . . . . .	70,833	59,998	5,242	65,240	130,831	136,073
1980 . . . . .	82,123	70,702	4,500	75,202	152,825	157,325
1981 . . . . .	96,130	79,735	4,677	84,412	175,865	180,542
		Dollar change in year(s)				
1971-75 . . . . .	20,723	17,144	-1,518	15,626	37,867	36,349
1976-80 . . . . .	45,061	40,329	4,319	44,648	85,390	89,709
1976 . . . . .	5,490	5,655	654	6,309	11,145	11,799
1977 . . . . .	7,082	6,081	3,477	9,558	13,163	16,640
1978 . . . . .	7,192	8,856	753	9,609	16,048	16,801
1979 . . . . .	11,290	10,704	-742	9,962	21,994	21,252
1980 . . . . .	14,007	9,033	177	9,210	23,040	23,217
		Percent change in year(s)				
1971-75 . . . . .	68.3	77.0	-80.9	64.7	72.0	66.7
1976-80 . . . . .	88.2	102.3	1,206.4	112.3	94.4	98.8
1976 . . . . .	10.8	14.4	182.7	15.9	12.3	13.0
1977 . . . . .	12.5	13.5	343.6	20.7	13.0	16.2
1978 . . . . .	11.3	17.3	16.8	17.3	14.0	14.1
1979 . . . . .	15.9	17.8	-14.2	15.3	16.8	15.6
1980 . . . . .	17.1	12.8	3.9	12.2	15.1	14.8
		Percentage distribution of debt outstanding Jan. 1				
1971 . . . . .	55.7	40.9	3.4	44.3	96.6	100.0
1976 . . . . .	56.2	43.4	.4	43.8	99.6	100.0
1977 . . . . .	55.1	43.9	1.0	44.9	99.0	100.0
1978 . . . . .	53.4	42.8	3.8	46.6	96.2	100.0
1979 . . . . .	52.1	44.1	3.8	47.9	96.2	100.0
1980 . . . . .	52.2	44.9	2.9	47.8	97.1	100.0
1981 . . . . .	53.2	44.2	2.6	46.8	97.4	100.0

<sup>a</sup>1981 Preliminary.

Table 3—Real estate farm debt, 1971 and 1976-81<sup>a</sup>

Year	Debt owed to reporting institutions					Individuals and others	Total
	Federal land banks	Life Insurance companies	All operating banks	Farmers Home Administration	Total		
	Million dollars outstanding Jan. 1						
1971 . . . . .	7,145	5,610	3,772	2,440	18,967	11,379	30,346
1976 . . . . .	15,950	6,726	6,296	3,369	32,341	18,728	51,069
1977 . . . . .	18,455	7,400	6,781	3,657	36,293	20,266	56,559
1978 . . . . .	21,391	8,819	7,780	3,982	41,972	21,669	63,641
1979 . . . . .	24,619	10,478	8,557	4,121	47,775	23,058	70,833
1980 . . . . .	29,642	12,165	8,623	6,556	56,986	25,137	82,123
1981 . . . . .	36,560	12,870	8,670	9,000	67,100	29,030	96,130
	Dollar change in year(s)						
1971-75 . . . . .	8,805	1,116	2,524	929	13,374	7,349	20,723
1976-80 . . . . .	20,610	6,144	2,374	5,631	34,759	10,302	45,061
1976 . . . . .	2,505	674	485	288	3,952	1,538	5,490
1977 . . . . .	2,936	1,419	999	325	5,679	1,403	7,082
1978 . . . . .	3,228	1,659	777	139	5,803	1,389	7,192
1979 . . . . .	5,023	1,687	66	2,435	9,211	2,079	11,290
1980 . . . . .	6,918	705	47	2,444	10,114	3,893	14,007
	Percent change in year(s)						
1971-75 . . . . .	123.2	19.9	66.9	38.1	70.5	64.6	68.3
1976-80 . . . . .	129.2	91.3	37.7	167.1	107.5	55.0	88.2
1976 . . . . .	15.7	10.0	7.7	8.5	12.2	8.2	10.8
1977 . . . . .	15.9	19.2	14.7	8.9	15.6	6.9	12.5
1978 . . . . .	15.1	18.8	10.0	3.5	13.8	6.4	11.3
1979 . . . . .	20.4	16.1	.8	59.1	19.3	9.0	15.9
1980 . . . . .	23.3	5.8	.5	37.3	17.7	15.5	17.1
	Percentage distribution of debt outstanding Jan. 1						
1971 . . . . .	23.6	18.5	12.4	8.0	62.5	37.5	100.0
1976 . . . . .	31.2	13.2	12.3	6.6	63.3	36.7	100.0
1977 . . . . .	32.6	13.1	12.0	6.5	64.2	35.8	100.0
1978 . . . . .	33.6	13.9	12.2	6.3	66.0	34.0	100.0
1979 . . . . .	34.7	14.8	12.1	5.8	67.4	32.6	100.0
1980 . . . . .	36.1	14.8	10.5	8.0	69.4	30.6	100.0
1981 . . . . .	38.0	13.4	9.0	9.4	69.8	30.2	100.0

<sup>a</sup>1981 Preliminary.

cost of funds. Second, commercial banks experienced liquidity problems as evidenced by high loan-to-deposit ratios. In addition, a need to refinance short term debt with long term real estate secured debt helped contribute to a 23 percent rise in FLB debt in particular. In fact, during the second quarter of 1980 only 27 percent of the FLB loans made were for the purpose of buying real estate, the lowest percentage since 1971.

The Farmers Home Administrations' (FmHA) real estate debt is projected to increase 37 percent by January 1, 1981, bringing its share of total real estate debt to more than 9 percent. The FmHA share has been growing since 1979 and can be attributed primarily to the growth of the Economic Emergency and Farm Ownership Loan Programs.

Real estate debt held by life insurance companies (LICs) is expected to increase almost 6

percent during 1980, the smallest percentage increase since 1974. Their market share will likely decline over 1 percentage point to 13.4 percent of total real estate debt. A principal reason for the decline in market share is internal rationing by LICs due to an increase in policy loans which are available to policy holders at rates of interest far below prevailing market rates.

Commercial banks, primarily due to high interest rates and low liquidity, are expected to decline in market share during 1980 from 10.5 to 9 percent. Farm real estate debt held by commercial banks rose only about one-half of 1 percent this year matching its growth rate during 1979 but falling far short of rates of growth during previous years. It appears that this recent trend will continue based on the American Bankers Association (ABA) Farm Credit Survey results shown in table 4. Over 80 percent of

Table 4—Changes in volume of different types of farm loans at commercial banks<sup>a</sup>

Type of loan	Actual change:			Expected change:		
	Mid-1979 to mid-1980			Mid-1980 to mid-1981		
	Increase	Decrease	Same	Increase	Decrease	Same
	<i>Percent of banks reporting</i>					
General operating . . . . .	69	16	15	75	6	19
Farm machinery and equipment . . .	31	46	23	47	19	34
Crop storage . . . . .	28	22	50	25	17	58
Other livestock incl. dairy . . . . .	33	22	45	36	9	55
Feeder cattle (feed and calves) . . . .	26	35	39	38	14	48
All nonreal estate . . . . .	50	22	28	57	7	36
Farm real estate . . . . .	15	39	46	19	25	56

<sup>a</sup>Data were obtained in a survey conducted by the American Bankers Association (ABA) in Aug.-Sept. 1980.

Table 5—Nonreal estate farm debt, 1971 and 1976-81<sup>a</sup>

Year	Debt owed to reporting institutions (excluding CCC)					Individuals and others <sup>c</sup>	Total excluding CCC loans	CCC price support and storage loans	Total, including CCC loans
	All operating banks	Production credit assoc.	Federal intermediate credit banks <sup>b</sup>	Farmers Home Admin.	Total				
	Million dollars outstanding Jan. 1								
1971 . . . .	11,102	5,295	220	795	17,412	4,850	22,262	1,876	24,138
1976 . . . .	20,160	10,773	350	1,772	33,055	6,350	39,406	358	39,764
1977 . . . .	23,283	12,233	368	1,877	37,761	7,300	45,061	1,012	46,073
1978 . . . .	25,709	13,508	374	3,141	42,732	8,410	51,142	4,489	55,631
1979 . . . .	28,273	15,016	509	5,780	49,578	10,420	59,998	5,242	65,240
1980 . . . .	31,034	18,299	666	8,983	58,982	11,720	70,702	4,500	75,202
1981 . . . .	31,410	20,500	825	13,000	65,735	14,000	79,735	4,677	84,412
	Dollar change in year (s)								
1971-75 . .	9,058	5,478	130	977	15,643	1,500	17,144	-1,518	15,626
1976-80 . .	11,250	9,727	475	11,228	32,680	7,650	40,329	4,319	44,648
1976 . . . .	3,123	1,460	18	105	4,706	950	5,655	654	6,309
1977 . . . .	2,426	1,275	6	1,264	4,971	1,110	6,081	3,477	9,558
1978 . . . .	2,564	1,508	135	2,639	6,846	2,010	8,856	753	9,609
1979 . . . .	2,761	3,283	157	3,203	9,404	1,300	10,704	-742	9,962
1980 . . . .	376	2,201	159	4,017	6,753	2,280	9,033	-177	9,210
	Percent change in year (s)								
1971-75 . .	81.6	103.5	59.1	122.9	89.8	30.9	77.0	-80.9	64.7
1976-80 . .	55.8	90.3	135.7	633.6	98.9	120.5	102.3	1,206.4	112.3
1976 . . . .	15.5	13.6	5.1	5.9	14.2	15.0	14.4	182.7	15.9
1977 . . . .	10.4	10.4	1.6	67.3	13.2	15.2	13.5	343.6	20.7
1978 . . . .	10.0	11.2	36.1	84.0	16.0	23.9	17.3	16.8	17.3
1979 . . . .	9.8	21.9	30.8	55.4	19.0	12.5	17.8	-14.2	15.3
1980 . . . .	1.2	12.0	23.9	44.7	11.4	19.5	12.8	3.9	12.2
	Percentage distribution of debt outstanding Jan. 1								
1971 . . . .	46.0	21.9	.9	3.3	72.1	20.1	92.2	7.8	100.0
1976 . . . .	50.7	27.1	.9	4.4	83.1	16.0	99.1	.9	100.0
1977 . . . .	50.5	26.6	.8	4.1	82.0	15.8	97.8	2.2	100.0
1978 . . . .	46.2	24.3	.7	5.6	76.8	15.1	91.9	8.1	100.0
1979 . . . .	43.3	23.0	.8	8.9	76.0	16.0	92.0	8.0	100.0
1980 . . . .	41.3	24.3	.9	11.9	78.4	15.6	94.0	6.0	100.0
1981 . . . .	37.2	24.3	1.0	15.4	77.9	16.6	94.5	5.5	100.0

<sup>a</sup>1981 Preliminary. <sup>b</sup>Financial institutions other than PCA's that obtain funds from the FICB's. <sup>c</sup>Includes Small Business Administration farm loans estimated at \$.3 bil., \$1.7 bil., \$2.4 bil., and \$2.6 bil. for Jan. 1, 1978, 1979, 1980, and 1981, respectively.



the respondents indicated that the volume of farm real estate loans made by their banks will either decrease or remain the same in 1981. Hence, the role of commercial banks in providing real estate secured credit to farmers to can be expected decline even further in 1981.

Although there is little information available on seller financing during 1980, it is expected that their (individuals and others) share of total real estate debt will decline to about 30 percent by January 1, 1981. In spite of the higher interest rates which encouraged greater seller financing, the decline in land transfers this year should result in a reduction in individuals and others' share of total loans outstanding since seller-financed mortgages tend to have shorter maturities than institutional lenders. This implies that a larger number of seller-financed loans will be paid off without being offset by new seller-financed loans, producing a drag on the otherwise substantial growth in the debt held by individuals and others.

### Farm Nonreal Estate Debt

Total nonreal estate debt is expected to rise about 12 percent in 1980 to a projected level of about \$84.4 billion on January 1, 1981 (table 5).

The most important suppliers of nonreal estate credit to farmers are commercial banks. However, their share of total nonreal estate debt will have eroded by 4 percentage points during 1980 to 37.2 percent due primarily to low liquidity and high interest rates. Commercial banks' farm nonreal estate debt outstanding should rise only 1 percent in 1980 compared with a 10 percent rate of growth last year. However, over half of the respondents to the ABA Farm Credit Survey indicated that their banks would increase their nonreal estate lending to farmers in 1981. Assuming the unusual financial situation of 1980 is not repeated in 1981, commercial banks are expected to continue their role as the major lender of nonreal estate funds to farmers. This role may in fact be enhanced by The Depository Institutions Deregulation and Monetary Control Act of 1980 which preempts State usury laws on agricultural loans of \$25,000 or more, allowing interest rates to rise 5 percentage points above the Federal Reserve discount rate. This should permit commercial banks to continue to lend money during periods of high interest rates rather than allow customers to seek funds from the Farm Credit System which is not subject to State usury laws.

Production Credit Associations' (PCAs) nonreal estate debt outstanding is expected to increase 12 percent in 1980, as opposed to 22 percent growth in 1981, leaving their market share unchanged at 24.3 percent.

Federal Intermediate Credit Banks' (FICBs) nonreal estate debt outstanding rose 24 percent in 1980.

This growth was attributed primarily to the competitive edge that FCS interest rates held over commercial banks' traditional sources of funds and low liquidity at commercial banks.

The FmHA share of total nonreal estate debt is projected to rise 3.5 percentage points to 15.4 percent of all nonreal estate debt by January 1, 1981. This increase in share will result from a forecasted 44.7-percent rise in nonreal estate debt outstanding for FmHA during the year.

The six full-line farm machinery manufacturers surveyed increased their loans outstanding by 38 percent in 1980 (see table 6). Although high interest rates tend to discourage firms from granting trade credit, the sales incentive apparently overrode this factor for farm machinery dealers. Overall, outstanding nonreal estate debt supplied by individuals and others (machinery dealers as well as other suppliers) is expected to rise about 19 percent during the year—bringing their projected market share to 17 percent on January 1, 1981.

The Commodity Credit Corporation loans outstanding are projected to increase about 4 percent this year. The share of total nonreal estate debt held by CCC is expected to decline only slightly by the end of the year.

**Table 6—Loan funds supplied by six large full-line farm machinery manufacturers for retail purchases of farm machinery and equipment<sup>a</sup>**

	Loans outstanding end of year	
	Million dollars	Percent (1970=100)
1970 . . . . .	1,170	100
1971 . . . . .	1,179	101
1972 . . . . .	1,499	128
1973 . . . . .	1,183	101
1974 . . . . .	1,160	99
1975 . . . . .	1,530	131
1976 . . . . .	2,192	187
1977 . . . . .	3,067	262
1978 . . . . .	3,131	268
1979 <sup>b</sup> . . . . .	3,488	298
1980 <sup>c</sup> . . . . .	4,814	411
	Loans made during year	
	Million dollars	Percent (1970=100)
1970 . . . . .	928	100
1971 . . . . .	936	101
1972 . . . . .	1,329	143
1973 . . . . .	1,065	115
1974 . . . . .	876	94
1975 . . . . .	1,236	133
1976 . . . . .	1,915	206
1977 . . . . .	2,682	289
1978 . . . . .	2,661	287
1979 <sup>b</sup> . . . . .	3,133	338
1980 <sup>c</sup> . . . . .	4,152	447

<sup>a</sup>Excludes loan estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for the other 2. Data, including estimates for 1980 and revisions, were provided by the six companies. <sup>b</sup>Revised. <sup>c</sup>Estimated.



## Interest Rates and Charges

Interest rates in 1980 have been substantially higher than in previous years. Rates rose to a peak in April, declined steadily through July and August, and have recently begun to creep upward again. This pattern was particularly troublesome to farmers since the peak occurred during Spring planting, a time when farm borrowing is seasonally heavy.

The prime rate, which is a short term money market rate, was extremely volatile during the year. From a 1979 second quarter average of 11.75 percent it rose to an average 15.25 percent in January 1980 and peaked at 20 percent in April. Since April, the prime rate declined to a monthly average of 11 percent in August and by early November had increased to 15-1/2 percent.

Most farm interest rates have followed a pattern similar to the prime rate, however, with less volatility. In May, PCA and FLB average rates were 14.1 and 10.9 percent, respectively.<sup>2</sup> In October, PCA's and FLB's were charging an average of 12.1 and 10.3 percent, respectively, comparable to those of January.

<sup>2</sup> Average percentage rates for these Farm Credit System lenders, however, would be higher than the stated interest rates since they do not reflect required stock purchases and loan fees.

The Farmers Home Administration has a variety of loan programs each with interest rates set by law. Generally, the operating loan and farm ownership loan interest rates move together and are within a half percentage point of each other. FmHA rates

peaked in May with rates for the operating loan, farm ownership, and economic emergency (operating purposes) loan programs at 12.5, 12.0, and 14 percent, respectively. In late October, those rates were 10.5, 11.0, and 11.5 percent, respectively.

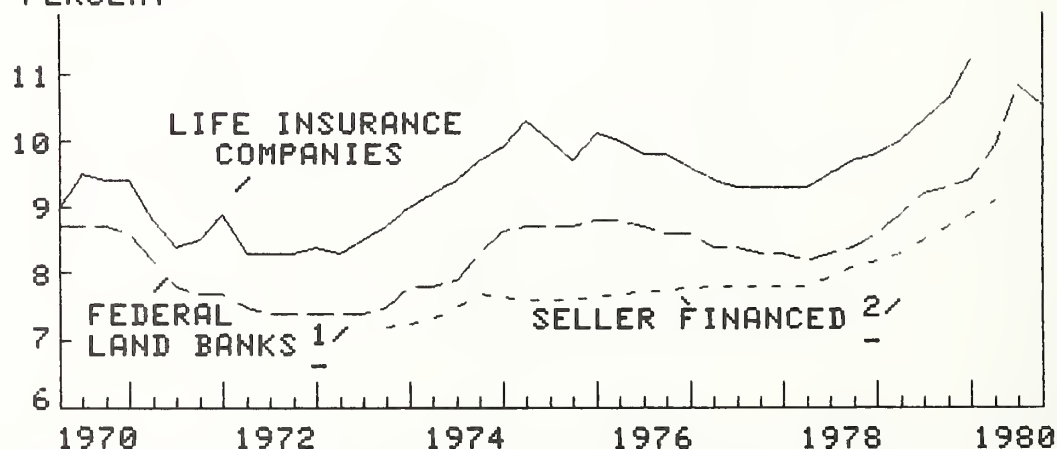
CCC commodity loan rates on the 1979 crop increased from 9 percent in April of this year to the current rate of 13 percent in May. The loan rate on the 1980 crop has declined from 13 percent in May to 11.5 percent in July and has remained at that level through October.

The most recent data available for interest rates on seller-financed real estate loans is for the first quarter of 1980. Although substantially below those of Federal land banks during that period, seller-financed loan rates rose to 9.1 percent from about 8.3 percent in 1979 (figure 4).

Interest charges on farm debt are expected to reach about \$16.2 billion in 1980, an increase of 25 percent from 1979. Total interest charges consist of \$7.4 billion on real estate debt and \$8.7 billion on nonreal estate debt. This rise reflects both the 14.8-percent increase in total farm debt outstanding as well as the rise in the cost of debt funds. (figures 4 and 5).

The outlook for interest rates in 1981 is uncertain and largely depends on the monetary policy adopted by the Federal Reserve System (FRS). If the FRS attempts to bring the growth in the money supply back on target, interest rates can be expected to remain high until that is accomplished. On the other hand, if the FRS permits continued rapid growth in the money supply, lenders may raise rates to compensate for an expected rise in the rate of inflation.

FIG. 4 INTEREST RATES ON FARM REAL ESTATE LOANS  
PERCENT

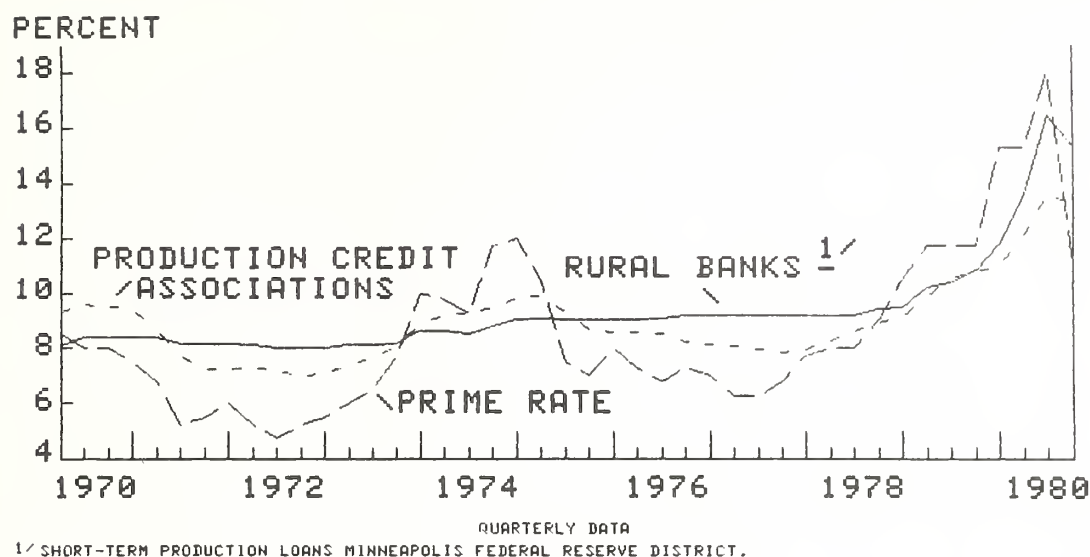


QUARTERLY DATA FOR LIFE INSURANCE COMPANIES (NEW COMMITMENTS) AND FEDERAL LAND BANKS (NEW LOANS) SEMI-ANNUAL DATA FOR SELLER FINANCED. LATEST RATES ARE 11.2 FOR LIFE INSURANCE COMPANIES IN 4TH QTR. 1979, 10.3 FOR FEDERAL LAND BANKS IN OCTOBER 1980 AND 9.1 FOR SELLER FINANCED IN FEBRUARY 1980.

<sup>1/</sup> EXCLUDES COST OF REQUIRED STOCK PURCHASES.

<sup>2/</sup> FINANCING OF THE SALE IS PROVIDED BY THE PREVIOUS OWNER OF THE FARMLAND.

**FIG.5 INTEREST RATES ON NONREAL ESTATE FARM LOANS,  
AND THE PRIME RATE CHARGED BY BANKS**



## **CASH SOURCES AND USES OF FUNDS FOR THE FARM SECTOR**

Two minor changes have been made in calculating the farm sector's cash sources and uses of funds account (table 7).<sup>3</sup> In previous reports non-cash expenses for farm labor were included in cash production expenses in calculating net cash income from farm and nonfarm farm sources. The current account does not net out these expenses and, therefore, reports higher cash incomes than previously published statements. The other change made was to expand "other cash uses," to include changes in balance sheet assets not previously counted as uses of funds. Net additions to farmer-owned savings bonds and equity in farmer cooperatives are now incorporated as uses of funds to more completely deal with yearly changes in the balance sheet of the farming sector. These changes are part of a continuing effort to improve the aggregate financial accounts of the farming sector. Unfortunately, because of lack of data, the accounts still do not include income from the sale of farmland to the non-farm sector, gifts and inheritances from outside the sector, gross flows of loan funds, and cash brought into the sector by new entrants.

<sup>3</sup> This table replaces all previously reported cash sources and uses of funds accounts published in prior issues of the *Agricultural Finance Outlook*.

### **Projected Cash Sources of Funds**

Cash sources of funds for the farm sector are projected at \$109.5 billion for 1979 (table 8). Projec-

tions of total cash sources for 1980 and 1981 are \$110.0 billion and \$125.3 billion, respectively. The slowdown of growth in cash sources in 1980 is expected to be reversed in 1981 when another record high cash flow is expected.

### **Income from Farm and Nonfarm Sources**

Current dollar net cash income from farm and non-farm sources increased in 1979, rose slightly in 1980, and is expected to rise substantially in 1981. The preliminary forecast of net farm income for 1980 is between \$23 and \$25 billion. With a strengthening farm economy and expected improvements in other sectors, off-farm employment opportunities should be improved in 1981. The ratio of net cash income from farm and nonfarm sources to total cash uses of funds measures the degree to which farm operators rely on internally generated funds. This ratio trended downward through most of the seventies but was reversed in 1980.

### **Farm Borrowing**

The net increase in real estate debt grew in both 1979 and 1980. Projections suggest a slowdown in 1981 as farmers reduce the burden of loan renewals from 1980 with higher incomes expected in 1981. The increase in nonreal estate debt was less in 1980 than in 1979 due to historically high interest rates in the spring. Lower expected farm incomes probably caused many farmers to refinance short term debt

Table 7—Cash sources and uses of funds for the farming sector, 1966-1978

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
	<i>Billion dollars</i>												
Cash sources of funds: <sup>a</sup>													
Net cash income from farm and nonfarm sources <sup>b</sup> . . . . .	32.9	31.4	33.4	36.8	37.9	39.1	46.9	65.4	65.4	60.5	64.0	63.3	76.0
Net flow of real estate loans . . . . .	1.9	2.0	2.3	1.8	1.1	1.9	3.6	5.5	5.0	4.8	5.5	7.1	8.6
Net flow of nonreal estate loans <sup>c</sup> . . . . .	1.7	1.1	-0.5	0.7	1.1	2.4	3.2	4.3	3.1	4.2	5.7	6.0	8.9
Total cash sources of funds . . . . .	36.5	34.5	35.2	39.3	40.1	43.4	53.7	75.2	73.5	69.5	75.2	76.4	93.5
Cash uses of funds:													
Purchases of machinery and motor vehicles . . . . .	4.6	5.1	4.6	4.5	4.9	4.9	5.7	7.6	8.2	8.7	10.0	10.5	12.0
Capital improvement to real estate assets . . . . .	2.1	2.3	2.1	2.3	2.4	2.5	2.4	3.1	4.4	4.7	5.0	5.6	6.2
Other capital purchases <sup>d</sup> . . . . .	0.9	1.8	1.8	1.4	2.2	3.2	4.1	3.7	2.7	2.3	3.0	4.8	5.4
Annual capital formation . . . . .	7.6	9.2	8.5	8.3	9.5	10.6	12.2	14.4	15.3	15.7	18.0	20.9	23.6
Purchases of real estate from discontinuing proprietors . . . . .	4.6	4.4	4.3	4.3	4.1	5.7	8.1	10.6	8.6	8.8	10.8	10.4	11.3
Total purchased capital . . . . .	12.3	13.6	12.8	12.6	13.6	16.3	20.3	25.0	23.9	24.5	28.8	31.3	34.9
Personal consumption and other cash uses . . . . .	24.3	20.8	22.3	26.7	26.4	27.1	33.4	50.1	49.6	45.0	46.3	45.1	58.6
Total cash uses of funds . . . . .	36.5	34.5	35.2	39.3	40.1	43.4	53.7	75.2	73.5	69.5	75.2	76.4	93.5
Total purchased capital . . . . .	12.3	13.6	12.8	12.6	13.6	16.3	20.3	25.0	23.9	24.5	28.8	31.3	34.9
Change in inventories . . . . .	-0.1	0.7	0.1	0.1	0.0	1.4	0.9	3.4	-1.6	3.4	-2.4	1.1	1.1
Total capital flow . . . . .	12.2	14.3	13.0	12.7	13.6	17.7	21.2	28.4	22.3	27.9	26.5	32.4	36.0
Real dollar flows:													
Total net cash income/CPI . . . . .	33.9	31.4	32.0	33.6	32.6	32.2	37.5	49.1	44.3	37.5	37.5	34.9	38.9
Personal consumption and other cash uses/CPI . . . . .	25.0	20.8	21.4	24.4	22.7	22.4	26.7	37.7	33.6	27.9	27.2	24.9	30.0
	<i>Percent</i>												
Analytical ratios:													
Total purchased capital/Total net cash income . . . . .	37.2	43.5	38.4	34.2	36.0	41.7	43.3	38.3	36.5	40.5	45.1	49.4	45.9
Total net flow of loans/Total purchased capital . . . . .	29.4	22.7	14.0	19.8	16.1	26.4	33.5	39.2	33.9	36.8	38.8	41.8	50.1
Total net flow of loans/Total capital flow . . . . .	29.6	21.7	13.9	19.7	16.1	24.3	32.1	34.5	36.4	32.3	42.3	40.5	48.7
Net flow of real estate loans/Total cash uses . . . . .	5.2	5.8	6.5	4.6	2.7	4.4	6.7	7.3	6.8	6.9	7.3	9.3	9.2
Cash income/Total cash uses . . . . .	90.2	91.0	94.9	93.6	94.5	90.1	87.3	87.0	89.0	87.0	85.1	82.9	81.3
End of year debt outstanding/Total cash income . . . . .	133.8	151.1	151.3	143.8	143.6	151.2	139.3	113.4	125.0	150.2	160.5	188.3	180.9
Numbers may not add due to rounding.													

<sup>a</sup>Cash sources of funds from sale of real estate to the nonfarm sector are not included due to lack of data. <sup>b</sup>Does not include labor perquisites in calculation of production expenses before subtracting from gross cash income. <sup>c</sup>Does not include CCC loans. <sup>d</sup>Includes net additions to household furnishings, commercial bank deposits and currency, savings bonds, equity in farmer cooperatives and purchases of breeding livestock.

Table 8—Cash sources and uses of funds in the farm sector, 1979-1981

	1979 <sup>a</sup>	1980 <sup>a</sup>	1981 <sup>b</sup>
<i>Billion dollars</i>			
<b>Cash sources of funds:</b>			
Net cash income from farm and nonfarm sources . . . . .	87.5	87.0	96.7
Net flow of real estate loans . . . . .	11.3	14.0	12.1
Net flow of nonreal estate loans . . . . .	10.7	9.0	16.5
Total cash sources of funds . . . . .	109.5	110.0	125.3
<b>Cash uses of funds:</b>			
Purchases of machinery and motor vehicles . . . . .	10.5	7.3	19.4
Capital improvements to real estate assets . . . . .	5.6	3.9	11.5
Other capital formation . . . . .	5.5	0.5	9.6
Annual capital formation . . . . .	21.6	11.7	40.5
Purchases of real estate from discontinuing proprietors . . . . .	13.2	13.2	16.1
Total purchased capital . . . . .	34.8	24.9	56.6
Personal consumption and other cash uses . . . . .	74.7	85.1	68.7
Total cash uses of funds . . . . .	109.5	110.0	125.3
Total purchased capital . . . . .	34.8	24.9	56.6
Change in inventories . . . . .	4.1	-1.3	1.6
Total capital flow . . . . .	38.9	23.6	58.2
<b>Real dollar flows:</b>			
Total net cash income/CPI . . . . .	40.2	35.3	35.8
Personal consumption and other cash uses/CPI . . . . .	34.4	34.5	25.4
<i>Percent</i>			
<b>Analytical ratios:</b>			
Total purchased capital/Total net cash income . . . . .	39.8	28.7	58.5
Total net flow of loans/Total purchased capital . . . . .	63.2	92.5	50.6
Total net flow of loans/Total capital flow . . . . .	56.6	97.5	49.2
Net flow of real estate loans/Total cash uses . . . . .	10.3	12.8	9.7
Cash Income/Total cash uses . . . . .	79.9	79.0	77.2
Debt outstanding/Total cash income . . . . .	179.8	207.6	214.5

<sup>a</sup>Preliminary, <sup>b</sup>Forecast.

using real estate assets as collateral, contributing to the unusually small net increase in nonreal estate debt. As in the recent past, the Farm Credit System is expected to provide the largest share of new loans throughout the period. Some slowdown in their growth rate can be expected if projected lower interest rates occur in 1981.

The Farmers Home Administration has become a major source of debt financing to agriculture. Its loans outstanding were \$15.538 billion on January 1, 1980 and are expected to be over \$22 billion on January 1, 1981, an increase of almost \$7 billion during 1980. Some slowing of the growth of Farmers Home Administration lending is expected to occur in 1981 since higher farm incomes are forecast.

The ratio of debt outstanding to total net cash income is a measure of the relative burden of debt against income. This ratio increased from 77 percent in 1951 to almost 180 percent in 1979. A large increase is expected for 1980 because of continuing increases in debt outstanding coupled with a modest decline in cash income. A resurgence of capital

investment in 1981 will increase the ratio even further as increases in debt will likely outpace substantial increases in income. The movement to debt financing in the last 30 years has made farm production dependent upon readily available credit as evidenced by the financial distress of farmers in the spring of 1980.

### Projected Cash Uses of Funds

A cash flow statement requires that cash sources equal cash uses. Thus cash uses of funds for 1979, 1980, and 1981 are identical to the cash sources discussed above (table 8). Uses of funds include the acquisition of capital assets, purchases of consumption items, and withdrawals for off-farm investment.

### Farm Capital Flows

Purchases of capital assets were high in 1979 but showed a substantial decline in 1980. Historically, high interest rates and expectations of low farm incomes for 1980 made farmers postpone purchases



of equipment. A resurgence in demand for capital assets is likely in 1981 with expectations of lower interest rates and improving farm incomes. Preliminary measure of annual capital formation in 1979 set gross investment at \$21.6 billion. Estimates for 1980 and 1981 are \$11.8 billion and \$40.5 billion, respectively. Other capital items include net changes in household furnishings, commercial bank deposits and currency, savings bonds, equity in farmer cooperatives, and purchases of breeding livestock. Capital formation for these items is expected to be \$5.5 billion, \$0.5 billion, and \$9.6 billion for 1979, 1980, and 1981, respectively.

The equity of discontinuing proprietors purchased by continuing farm operators or nonoperator landlords is an increasingly important use of funds. Preliminary estimates put the value of this flow at \$13.2 billion in 1979. It is expected to be \$13.2 billion in 1980 and \$16.1 billion in 1981. These values do not keep up with increases in the value of farm real estate because of declines in farm transfers. The transfer rate is expected to be extremely low in 1980 mainly due to high interest rates. Land transfers are expected to increase in 1981.

Changes in crop and livestock inventories are a relatively small, but highly variable, component of capital flow. Unlike other capital assets, most inven-

tories are homegrown, requiring cash expenditures only for the inputs to produce them. Therefore, changes in the values of inventories are presented separately in tables 7 and 8.

Ratios of the net flows of loan funds to purchased capital, or to total capital flows, allow measurement of the relative importance of borrowed funds in financing capital acquisitions. For 1980, the net change in debt outstanding is expected to account for 92.5 percent of total purchased capital as opposed to 63.2 percent in 1979. Projections for 1981 put this ratio at 50.6 percent.

### Personal Consumption and Other Cash Uses

Personal consumption and other cash uses of funds include expenditures for food, clothing, taxes, other personal consumption items, and nonfarm investments. The value is computed residually by subtracting the uses of funds accounted for in the *Balance Sheet of the Farming Sector* and *Farm Income Statistics* from the total sources of funds. For 1980, personal consumption and other cash uses is expected to be \$85.1 billion in nominal dollars. When this figure is adjusted for inflation it represents the lowest level since 1977. A major decline is expected for 1981 with projections of \$68.7 billion in current dollars and

Table 9—Balance sheet of the farming sector, 1978-1982

Items/Years (Jan. 1)	1978	1979	1980	1981 <sup>a</sup>	1982 <sup>b</sup>	Percent Changes	
						1980-81	1981-82
	Billion dollars						
Assets							
Physical assets:							
Real estate. . . . .	513.7	586.1	671.3	730.3	810.8	9	11
Nonreal estate							
Livestock and poultry . . . . .	31.9	51.3	61.2	69.9	62.6	14	-10
Machinery and motor vehicles . . . . .	77.1	85.1	94.3	98.0	120.4	4	23
Crops stored on and off-farm . . . . .	24.9	27.4	33.1	38.3	42.3	16	10
Household equipment and furnishings. . . .	15.6	18.0	20.5	22.5	25.4	10	13
Financial assets:							
Deposits and currency . . . . .	15.2	15.5	15.9	16.2	16.4	2	1
U.S. Savings Bonds and Investments In cooperatives. . . . .	19.2	21.0	22.6	24.1	29.4	7	22
Total assets . . . . .	697.6	804.4	918.9	999.3	1,107.3	9	11
Claims							
Liabilities:							
Real estate debt. . . . .	63.7	70.8	82.1	96.1	108.3	17	13
Nonreal estate debt to:							
CCC . . . . .	4.5	5.2	4.5	4.7	3.0	4	-36
Others . . . . .	51.1	60.1	70.7	79.7	96.2	13	21
Total liabilities . . . . .	119.3	136.1	157.3	180.5	207.5	15	15
Proprietors equities. . . . .	578.3	668.3	761.6	818.8	899.8	8	10
Total claims . . . . .	697.6	804.4	918.9	999.3	1,107.3	9	11

<sup>a</sup>Preliminary. <sup>b</sup>Forecast.



\$25.4 billion in constant dollars. This decline represents a major commitment to capital purchases postponed by farmers because of high interest rates during 1980.

#### **Outlook for 1981<sup>4</sup>**

Net farm income in 1981 is expected to be between \$27 and \$32 billion, almost one-fourth higher than the level in 1980. The 1980 drought decreased production of many crops so that inventories will be low going into 1981. This will tend to keep crop prices high throughout the year and, with normal production, imply substantial increases in farm incomes. Incomes of livestock producers are also expected to improve in 1981. Growth in consumer incomes is likely to increase the demand for meat next year. Supplies will decline as a cutback in pork production more than offsets gains in cattle and poultry production.

<sup>4</sup> Projection of the balance sheet and the cash sources and uses of funds statement for 1981 have been made using the USDA's GEM model. Documentation of the model is available from the the Department of Agricultural Economics, Texas A&M University in Technical Report No. DTR 80-5 entitled, *Description and Use of a Macroeconomic Model of the U.S. Economy which Emphasizes Agriculture*.

Higher incomes and lower interest rates projected for 1981 will likely cause a return to larger increases in farm real estate values (table 9). The value of farm real estate, expected to be \$730 billion on January 1, 1981, is conservatively projected to grow to over \$811 billion on January 1, 1982. An 11 to 16 percent change is currently expected, returning to farm real estate value increases higher than the expected inflation rate. Growth in real estate debt outstanding will likely be less in 1981 than it will be for 1980 given an 11 percent increase in real estate values. However, if the increase in real estate values is closer to 16 percent, the net change in real estate debt may be higher in 1981 than it is expected to be in 1980. Nonreal estate debt is expected to increase much faster next year. The expected rapid increase of capital expenditures will expand the need for intermediate term credit.

Higher incomes and more rapid increases in asset values should leave farmers in better financial shape by the end of 1981. Proprietors' equities are projected to increase by at least 10 percent, representing a real increase in wealth. If real estate asset values rise faster than the estimated 11 percent (table 9), the financial condition of established farm landowners will improve by the end of next year.

## **TAXATION**

### **Recent Legislation**

#### **Carryover Basis Rules Repealed**

Prior to the Tax Reform Act of 1976, capital gains on property that were not realized during an individual's lifetime were not taxable for income tax purposes as long as the land was not sold before death. At death, the value of the property at the time of inheritance was "stepped up" to its fair market value. This value became the tax basis which is the value assigned to newly-acquired property from which subsequent gains or losses are assessed. Thus, if an heir were to subsequently sell the inherited property, gains or losses prior to the inheritance would be disregarded and the heir would only pay capital gains on appreciation accruing to the property after inheritance. In an attempt to tax the capital gains accruing to property prior to inheritance, Congress enacted the carryover basis provisions.

The carryover basis rules, enacted by the Tax Reform Act of 1976, required an heir to pay income taxes on a portion of the capital gains earned prior to inheritance. The tax basis became the greater of the price which the decedent originally paid for the property or the appraised fair market value on December 31, 1976. Farmland appreciation for tax

purposes was to be calculated under the carryover basis by multiplying the total appreciation by the ratio of the length of time the land was held after December 31, 1976 to the total length of time the land was held. Strong opposition to the carryover basis provisions by many tax-oriented groups helped prevent its implementation. The provisions were finally repealed earlier this year. Thus, capital gains on property passing to heirs will remain untaxed. Return to the "stepped up" method of valuing inherited farmland will encourage farmers to pass their farms on to the next generation rather than sell it prior to death.

#### **Installment Sales Revision Act of 1980**

In general, an installment sale can be defined as the disposition of property where a contract between buyer and seller allows for the postponement of all or part of the revenue to be received until after the year of sale. If the terms of the installment sale meet the requirements set forth in the Internal Revenue Code (Section 453) the seller will be eligible to report the gain on sale, for Federal income tax purposes, using the installment method. With the installment method, only that portion of the installment payment which is attributed to gross profit is

subject to Federal income taxation for the taxable year in which a payment is received.

The purpose of the installment method is to permit the spreading of the income from the sale over the period during which the installment payments are received. This spreading of income into the future is a major advantage of sales made under the installment method. Because larger gains are taxed at higher rates than smaller gains, the use of the installment method is very appealing since a large gain can be divided into smaller amounts and taxed at lower rates, thus decreasing the seller's potential tax burden.

The major problem with the previous rules and regulations concerning installment sales was that they were quite complex and led to excessive litigation and confusion. It has been argued that certain restrictions were arbitrarily set and that the definitions of key terms were too general, thus adding to the confusion. Therefore, in an attempt to clarify some of these problem areas, the "Installment Sales Revision Act of 1980" was passed by the 96th Congress in September 1980. While this Act was not specifically aimed at the agricultural sector, the changes set forth may have certain far reaching implications, especially to those farmers who engage in tax planning and utilize the tax minimizing advantages of installment sales. Aside from structural improvements to the existing law, those changes which appear to be most important to farmers are in the areas of certain compliance requirements, existing regulations regarding casual sales of inventoriable personal property, and related party sales.

### **Easing Compliance Regulations**

Under the new law, taxpayers need not elect the installment method. Gains on qualified sales will automatically apply unless the taxpayer elects not to utilize the installment method. It is intended that this change will eliminate the situation where a taxpayer attempts to report the gain from a sale on the installment method, but is denied the request because of a technical error.

A second change is in the area of what was formerly called the two-payment rule. In the past, a taxpayer could not qualify for the installment method if the total purchase price was received in one lump sum, even if payment was received in a year following the year in which the sale occurred. The new law stipulates that only one payment need be received after the close of the taxable year in which disposition occurs for qualification under the installment method.

The new law also abolishes the initial payment limitation and the selling price requirement. Before enactment of the new law, gains from the sale of real property and from casual sales of personal prop-

erty could not be reported under the installment method if payment received in the taxable year of the sale exceeded 30 percent of the selling price. In addition, under the previous law a taxpayer could not qualify for the installment method if a casual sale of personal property was not in excess of \$1,000. Under the "Installment Sales Revision Act of 1980," the 30 percent limit and \$1,000 minimum have been dropped and no new initial payment limits or minimum selling price requirements have been added. By simplifying existing regulations, these two changes should allow a greater number of farmers, especially those whose farms are not large enough to have access to a tax specialist, to utilize the advantages of the installment method.

Finally, unlike prior law where the selling price had to be fixed at the time of sale, the taxpayer can now utilize the installment method to report the gain on a qualified sale even if the selling price is subject to a contingency. At the time of this writing, the exact regulations regarding the determination of the total contract price and gross profit ratio had not yet been published. However, based on the Senate explanation, it seems that either a maximum selling price, fixed payback period, or a forecast of income will be necessary, depending on the situation, to complete an estimate of taxable income for each year.

### **Casual Sales of Inventoriable Property**

A major change which should be an advantage to certain farmers is a clarification of past law. Formerly, the income from a casual sale or other casual disposition of personal property could be reported on the installment method only if the property was not of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year. The phrase "properly be included in the inventory" created a large amount of controversy. Many farmers have the option to utilize an accounting method where inventories are not necessary for computing Federal income taxes (cash accounting). Those farmers who chose to utilize an accounting technique in which inventories were necessary (accrual accounting) even though they had the option to use the cash method, felt that the casual sale of personal property which was included in inventory did not violate the preceding requirement. Many farmers assumed that since they had the option of not using inventories, they would be allowed to report the gains on the casual sale of inventoriable personal property under the installment method. The Treasury Department took the opposite position. The new law clarifies this area. The phrase "properly be included" has been changed to "required to be included" and allows those farmers who previously may have had their tax return



challenged by the Internal Revenue Service to report the gain on the casual sale of personal property, whether or not included in inventory, on the installment method. Note, this change applies only to those farmers who have the choice not to use inventories.

### **Related Party Sales**

The new law seeks to limit the use of installment sales as a means of intra-family transfer of appreciated property and certain depreciable property. It essentially requires the use of the accrual method of accounting for deferred payment sales of depreciable property to related parties. In addition, it requires acceleration of gain recognition for installment sales of property other than depreciable property to related parties who subsequently sell or dispose of the property. For example, if a father sells property (other than depreciable property) to his son under the installment method, the normal rules apply and gain is recognized proportionately as payments are received. However, if the son sells or otherwise disposes of the property to a third party and receives full payment, the father must immediately recognize the full amount of the unreported gain on the original installment sale. Prior law has also been clarified by making it clear that the seller must recognize any unreported gain from an installment sale if the installment debt is cancelled by gift or bequest. The overall impact of these new rules should be to severely limit the use of installment sales as a means of tax avoidance especially among family members.

### **Conclusion**

This new piece of legislation, the "Installment Sales Revision Act of 1980," is a step forward in resolving many of the complexities of previous rules and regulations concerning installment sales. The new law eliminates many of the potential traps such as the \$1,000 minimum selling price for sales of personal property, the two-payment rule, and the 30 percent initial payment limit. In addition, the new law introduces some restrictions, especially in the areas of related party sales, gifts, and bequests in an attempt to prevent a taxpayer from utilizing the installment method for the sole purpose of tax avoidance. These changes, as well as other improvements, should make it easier for a greater number of farmers as well as taxpayers in general to take advantage of the installment method for reporting the gains on installment sales.

### **Tax Reduction Proposals: Outlook**

Several legislative proposals have been made for changes in the tax laws that would reduce personal income taxes and provide investment incentives to

business. The personal income tax proposals include cuts in tax rates and increases in the basic exemptions. On the business side, major depreciation reform heads the list of proposed changes. Other proposals include the liberalization of the investment tax credit, an increase in the credit for rehabilitation of old structures, a reduction in the capital gains tax rate, credits for Social Security payments, higher limits on contributions to an individual retirement account (IRA), and an increase in the allowable number of shareholders in a subchapter S corporation.

### **Investment and Productivity**

Each of the major tax cut proposals would liberalize depreciation in an effort to increase capital formation and improve productivity. Incentives for investment in both equipment and structures are provided.

While the effects of the current tax laws on the capital mix are uncertain, the new incentives appear to favor investment in machinery and equipment versus structures in agriculture. This could result in a reallocation of the capital stock away from farm structures to machinery and equipment. The effects of such a reallocation of the capital stock on productivity in the farm sector are uncertain.

### **Land Prices**

Since landowners can postpone the payment of capital gains taxes by postponing the sale of land, the tax tends to discourage land sales. Most land sales transfer land to higher valued uses or to owners who can manage the land more efficiently in its current use. A capital gains tax reduction should promote the efficient use of farmland by reducing the disincentive to sell. However, any decline in the average price of farmland as a result of this effect would probably be offset by the long term capitalization of the reduced tax rate into the price of farmland. Overall long term benefits derived from other proposals may be capitalized into higher real property values. For example, a substantial reduction in individual tax cuts would tend to put pressure on land prices as aggregate demand rises.

### **Labor Costs**

The enactment of a refundable credit against Social Security taxes paid by employers would reduce the cost of labor. Those sectors of agriculture which rely heavily on labor rather than capital would particularly benefit from such a measure.

### **Food Prices**

A generally moderate tax cut for individuals would be offset to some extent by scheduled 1981 Social

Security tax increases and inflation-fueled bracket creep. Thus, the impact on disposable income would be moderated. Higher disposable income in the non-farm sector would lead to a higher demand for food and prices would rise faster than they would without a tax cut. Tax cuts of this type in the past have resulted in a higher demand for meat. A more substantial individual income tax cut would tend to boost disposable income. Indexing of tax rates to prevent bracket creep would strengthen this effect. The overall impact of higher disposable income should cause food prices to rise.

## Farm Income

Increased investment as a result of business incentives should reduce costs of production as productivity rises. Lower costs of production in the short run, however, may be offset by higher interest rates. Total production should also increase and crop prices may decline. On the individual income tax side, the long term impact of larger individual tax cuts would be greater than moderate cuts as farm operators realize the resulting benefits, particularly at higher income levels.

## TYPE OF FARM

This section describes the current and prospective financial conditions of major farm types in the United States. An indication of the number and location of these units is shown in table 10 and on the maps accompanying the discussions of each farm type. The number of farms and distributional information in the table are from the 1974 Census of Agriculture, the latest available.

Much of the financial information was obtained in August and September 1980 through surveys of commercial banks conducted by the American Bankers Association, the Farmers Home Administration, Federal Reserve District Banks, State Agricultural Extension Service economists, and major life insurance companies. All of the reported information was used in analyzing the financial conditions for 1980 and the outlook for 1981 for the major types of farms. However, in the statistical tables on financial conditions, only data from commercial banks is reported because the number of reports from banks was much larger than from the other lenders.

After a relatively disappointing net income situation in 1980, lenders were relatively optimistic when surveyed in August-September about financial prospects for their farm borrowers in 1981. A large proportion of commercial bankers indicated that net farm income and repayment ability decreased from mid-1979 to mid-1980 for all farm types except dairy farms (table 11). Bankers did, however, expect financial conditions to be much improved from mid-1980 to mid-1981 for all farms in general.

Interest rates during 1981 are expected to remain relatively high and although rates will likely continue to dampen borrowing for capital expenditures, the overall demand for loan funds is expected to be strong (table 4). According to commercial bank respondents, higher interest rates during 1980 impacted most noticeably on borrowings for farm machinery, equipment, and real estate and less directly on short term loans for annual operating expenses (table 12). However, nearly 22 percent of bankers reported their own funds would be less than

Table 10—Numbers and characteristics of farm types, U.S. 1974 Census of Agriculture

Type of farm <sup>a</sup>	Number of farms		Value of farm products produced	Value of land and buildings, Dec. 31, 1979	Farms with value or farm products sold of \$100,000 or more	
	Thousand	Percent distribution	Percent distribution	Percent distribution	Percent of farm numbers within each type	Percent of total product sales within each type
Cash grain . . . . .	661.7	39.0	36.2	44.2	9.4	46.7
Livestock <sup>b</sup> . . . . .	493.8	29.1	27.5	30.4	7.0	61.9
Dairy . . . . .	196.1	11.6	11.9	8.7	8.0	34.9
Tobacco . . . . .	95.5	5.6	2.0	2.0	1.6	17.1
Fruit and nut . . . . .	70.9	4.2	5.6	4.3	12.4	69.4
Poultry . . . . .	42.7	2.5	7.9	1.3	38.1	79.8
Cotton . . . . .	30.7	1.8	2.3	2.5	13.8	66.9
Vegetable . . . . .	19.5	1.2	2.7	1.5	16.9	83.9
Other <sup>c</sup> . . . . .	84.1	5.0	3.9	5.1	6.9	47.9
All types . . . . .	1,695.0	100.0	100.0	100.0	—	—

<sup>a</sup>Based on distribution of class 1-5 farms (farms with annual sales of farm products of \$2,500 or more) by types from the 1974 Census of Agriculture. The type of farm classification indicates that a particular product or group of products amounts to 50 percent or more of the total value of all farm products sold during the year. <sup>b</sup>Livestock farms in 1974 consisted of 263 thousand beef cattle (except feed lots); 53 thousand beef cattle feedlots; 108 thousand hogs; 9 thousand sheep and goats, and 60 thousand general livestock (except poultry and animal specialties). <sup>c</sup>Includes general farms, animal specialty and unclassified types.

Table 11—Financial condition of U.S. farm borrowers at banks, by type of farm borrower<sup>a</sup>

Farm type and item	Estimated change:			Expected change:		
	Mid-1979 to Mid-1980			Mid-1980 to Mid-1981		
	Increase	Decrease	Same	Increase	Decrease	Same
<i>Percent of banks reporting</i>						
All type farms						
Net farm income . . . . .	27	60	13	45	34	21
Net worth . . . . .	43	34	23	49	22	29
Repayment ability . . . . .	19	55	26	37	32	31
Beef feedlots						
Net farm income . . . . .	8	80	12	58	27	15
Net worth . . . . .	18	60	22	57	18	25
Repayment ability . . . . .	0	74	26	51	22	27
Beef, cow-calf farms						
Net farm income . . . . .	31	53	16	40	39	21
Net worth . . . . .	46	27	27	47	24	29
Repayment ability . . . . .	21	50	29	33	35	32
Other livestock farms						
Net farm income . . . . .	9	81	9	71	10	19
Net worth . . . . .	16	53	31	60	13	27
Repayment ability . . . . .	9	78	13	64	13	23
Dairy farms						
Net farm income . . . . .	58	23	18	42	23	35
Net worth . . . . .	73	9	18	57	10	33
Repayment ability . . . . .	42	23	35	30	23	47
Cash grains farms						
Net farm income . . . . .	19	69	12	47	36	17
Net worth . . . . .	37	39	24	49	24	27
Repayment ability . . . . .	14	62	24	40	34	26
Poultry farms						
Net farm income . . . . .	22	72	6	53	40	7
Net worth . . . . .	33	45	22	60	20	20
Repayment ability . . . . .	11	67	22	47	40	13

<sup>a</sup>Commercial bank survey respondents in the American Bankers Association survey were asked to indicate the change that had occurred or that they expected to occur, in their borrowers' net farm income, net worths, and loan repayment ability. Survey was in August-September, 1980.

Table 12—Reaction of commercial banks' farm customers to higher interest rates, by type of farm loans<sup>a</sup>

Type of farm loan	Effect of higher interest rates		
	No noticeable effect	Reduced borrowing	Borrowed elsewhere
<i>Percent of banks reporting</i>			
Short term loans not secured by real estate. . . . .	48	49	3
Intermediate term loans for machinery and equipment. . . . .	22	69	9
Long term loans secured by real estate. . . . .	21	52	27

<sup>a</sup>Commercial bank respondents in the American Bankers Association survey were asked to indicate how their farm borrowers reacted to high interest rates during early 1980. Survey was in August-September, 1980.



**Table 13—Expectation of typical loan funds situation at commercial banks, by most important type of farm borrowers<sup>a</sup>**

Farm type	Expected mid-year 1981		
	Own funds in good balance with loan demand	Own funds exceed demand for loans	Own funds less than loan demand
	<i>Percent of banks reporting</i>		
All type farms . . . .	58	20	22
Beef feedlots . . .	63	12	25
Beef, cow-calf . . .	56	24	20
Other livestock . .	57	25	18
Dairy . . . . .	58	18	24
Cash grain . . . . .	60	18	22
Poultry . . . . .	61	22	17

<sup>a</sup>Commercial bank respondents in the American Bankers Association survey were asked to indicate the statement that would best describe the banks' expected mid-year 1981 typical loan fund situation. Survey was in August-September, 1980.

**Table 14—Percentage of current farm customers that commercial banks anticipate discontinuing through June 1981 by most important type of farm borrower<sup>a</sup>**

Farm type	Average percentage of farm borrowers to be discontinued	Proportion of borrowers to be discontinued by banks surveyed		
		Normal	Lower than normal	Higher than normal
		<i>Percent of banks reporting</i>		
All type farms . . . . .	1.9	75	4	21
Beef feedlots . . . . .	4.4	67	6	27
Beef, cow-calf . . . . .	1.8	71	8	21
Other livestock . . . . .	1.8	67	3	30
Dairy . . . . .	.9	87	3	10
Cash grain . . . . .	1.9	74	4	22
Poultry . . . . .	4.2	55	9	36

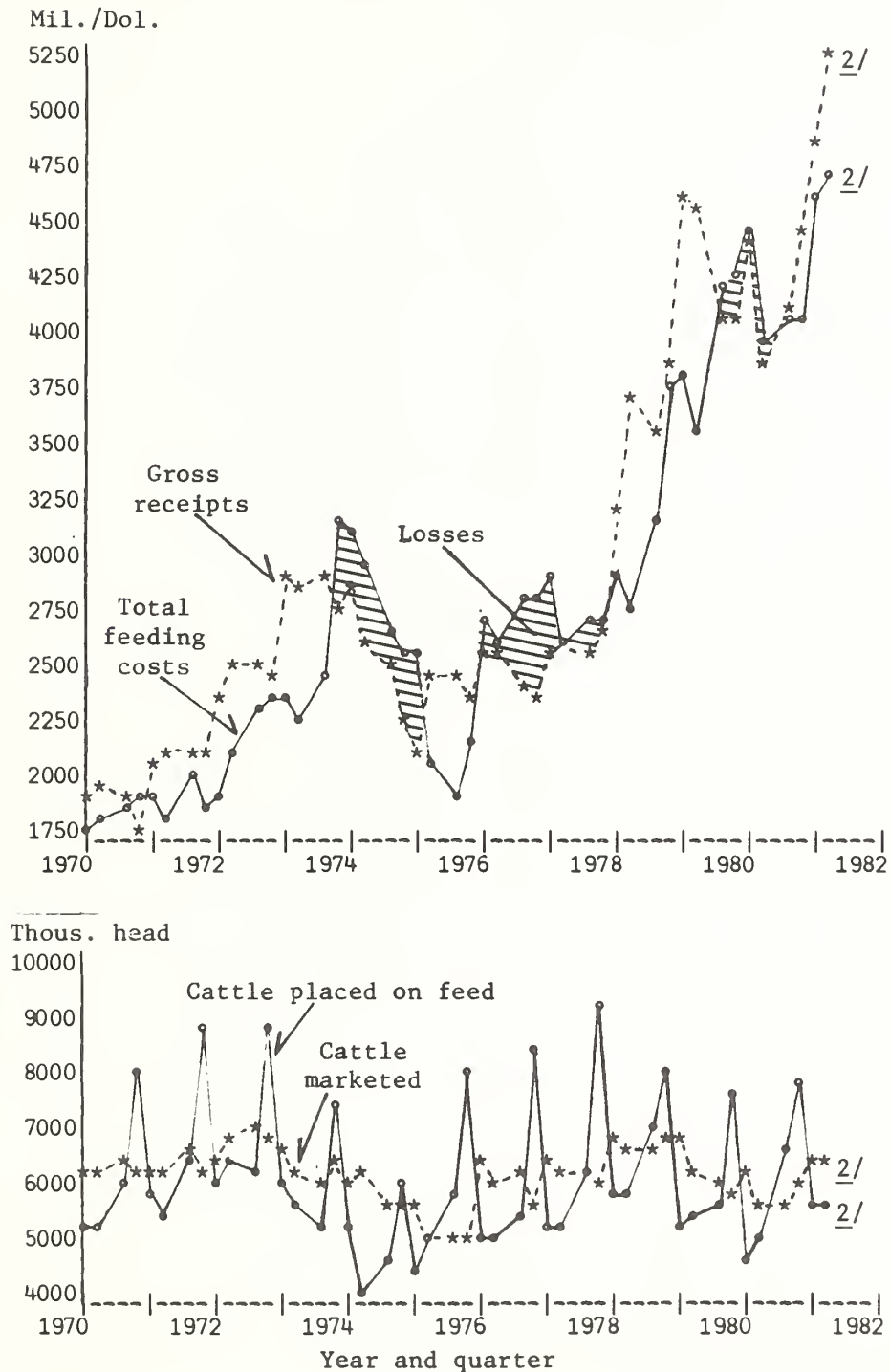
<sup>a</sup>Commercial bank respondents in the American Bankers Association survey were asked to indicate the anticipated percentage of current farm borrowers they would discontinue to finance through June 1981 because farm borrower no longer qualified. Survey was in August-September, 1980.

loan demand (table 13). This indicates that some bankers will need to continue efforts to supplement loan sources through joint loan participation with other lenders or other techniques in order to adequately serve the financing needs of farmers.

For all types of farm borrowers, commercial bankers indicated that the proportion of their farm borrowers in 1981 who will no longer be able to qualify for loans appears to be slightly higher than what

might be considered as normal (table 14). The average percentage of all farm borrowers expected to be discontinued through June 1981 was relatively low at 1.9 percent. Only 21 percent of banks reporting a higher than normal percentage of their borrowers expected to be discontinued. Poultry producers were reported to have a higher than normal proportion of borrowers to be discontinued by the banks surveyed.

Figure 6. Cattle feeding: Gross receipts, total feeding costs, profits and losses, cattle placed on feed and marketings, 23 States, 1970-81 1/



1/ Based on model specification by Bruce Hottel and Rod Martin (See LMS-209, USDA, June 1976).

2/ Preliminary.

## Cattle Feeding Outlook for 1981

The financial condition of cattle feeders is expected to improve in 1981 with most feeders experiencing increased profits at least through mid-1981 (figure 6). Fed cattle prices through midyear will likely average above those of the first half of 1980, high enough to offset a continuation of relatively high interest charges and higher grain and feeder calf prices. Feedlot placements will exceed year-earlier levels during the first two quarters of 1981 in response to favorable profit margins. Competition among feedlot operators for feeder calves will likely keep feeder calf prices relatively high. Further increases in grain prices could, however, slow the rate of feeder cattle placements and/or reduce expected gains in feeder cattle prices.

Prices for fed cattle after mid-1981 are expected to remain relatively high. Increased feeding costs and a rise in feeder calf prices relative to fed cattle prices in the spring of 1981 will tend to reduce profits of cattle feeders during the last half of the year.

Debt outstanding for cattle feeding will decline seasonally after the first month of 1981, but is likely to remain above year-earlier levels during most of the year (figure 7). No shortage of loan funds is expected, but interest rates are expected to remain high. Bankers, in general, indicate that the repayment ability of cattle feeders will be strong in 1980/81 (table 11).

## 1980 Financial Conditions

Cattle feeders as a whole experienced losses on fed cattle marketed during the first half of 1980, a continuation of the loss situation that prevailed during the last half of 1979 (figure 6). However, the situation improved after mid-1980 and most feeders will experience improved earnings during the last quarter of the year and through the first half of 1981. Prices for fed cattle are expected to strengthen in the latter

part of the year, more than offsetting the continued high interest charges on borrowed funds and higher costs for feed and calves. An increase in expected returns will help improve the cash flow situation of cattle feeders during the last quarter of 1980 and into 1981. Feedlot placements are expected to increase to levels above those of a year earlier.

With placements at seasonally high levels, the traditionally intensive use of borrowed funds for cattle feeding and increases in the costs for feed and calves will boost cattle feeders' debt outstanding to a new high during the last half of 1980 (figure 7). Total outstanding debt is estimated to reach \$6.2 billion during the last quarter of 1980 compared with \$5.8 billion a year earlier. The excess of new loans over expected repayments during the last quarter is expected to be nearly \$1.0 billion, one-third more than the level for the same period in 1979 (figure 7). Consequently, financial institutions will be called upon to furnish high levels of additional loan funds during the last quarter of 1980.

## Cow-Calf (Cattle Raising) Outlook for 1981

Cattle producers are entering 1981 in a favorable supply-demand situation that should improve net returns to producers for the year, despite the drought experienced in many areas during 1980 and the prospects of higher wintering costs. The buildup in herd numbers is expected to continue during 1981. This will be the second consecutive year of cow herd expansion following a 21-million-head liquidation in cattle inventory between 1975 and 1979, when low returns and cash flow problems plagued the cow-calf industry (table 15). Beef production is expected to increase slightly in 1981 over that of 1980, but prices for cattle will be strengthened by strong demand and bolstered by declines in pork production.

Over 45 percent of the commercial bankers indicate that they expect the net worth positions of cow-calf producers to improve from mid-1980 to mid-1981, while 40 percent expect net farm income to improve (table 11). The debt repayment ability of producers was indicated as relatively strong even though interest charges for debt funds will remain high during 1981.

## 1980 Financial Conditions

The financial conditions of cow-calf producers deteriorated to some extent during 1980 from the favorable situation of 1979. Summer drought conditions plagued producers in many of the Great Plains and Southeastern States from mid-1980 to late summer. But early fall rains in most areas have

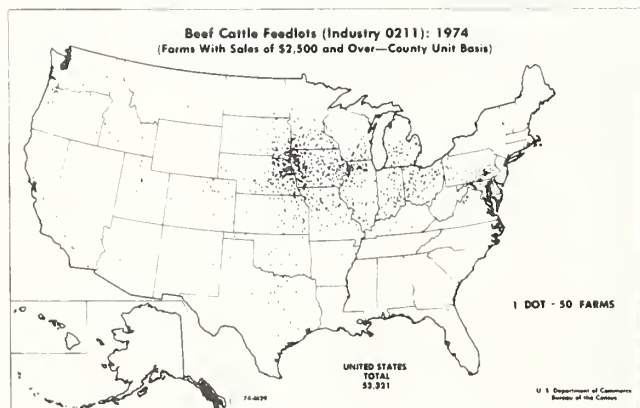
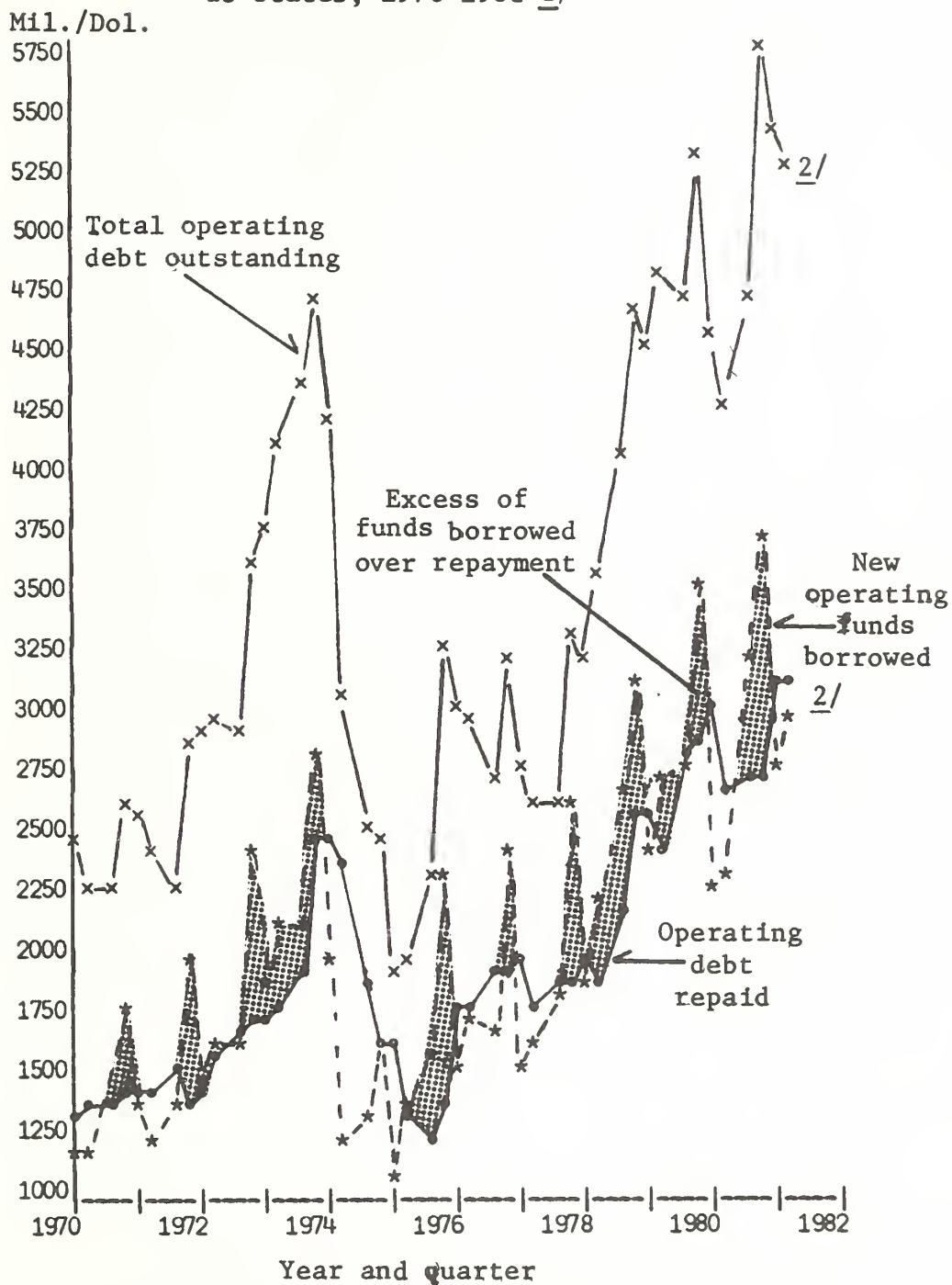


Figure 7. Cattle feeding: Total operating debt, operating funds borrowed and repaid, 23 States, 1970-1981 1/



1/ Based on model specification by Bruce Hottel and Rod Martin (See LMS-209, USDA, June 1976).

2/ Preliminary.

Table 15—Average per farm level of debt, equity, and returns on U.S. livestock ranches<sup>a</sup>

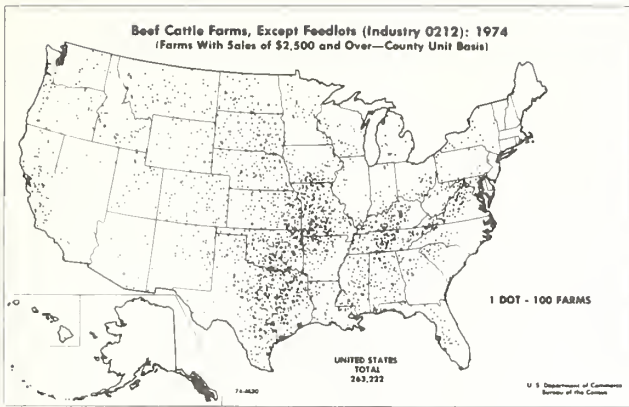
	Year									
	1970	1972	1973	1974	1975	1976	1977	1978	1979	1980 <sup>e</sup>
<i>Average per farm</i>										
<b>Small farms<sup>b</sup></b>										
Assets (\$)	125,141	141,651	161,645	198,377	211,556	235,537	262,808	291,058	337,067	376,734
Debt (\$)	10,240	11,500	12,842	14,841	16,508	18,311	20,488	23,141	26,296	30,685
Equity (\$)	114,901	130,151	148,803	183,536	195,048	217,226	242,320	267,917	310,771	346,049
Debt/Assets <sup>c</sup> (%)	8.2	8.1	7.9	7.5	7.8	7.8	7.8	8.0	7.8	8.1
Total net return <sup>d</sup> (\$)	1,373	2,454	3,460	-133	-2,029	-2,302	-2,504	91	3,741	1,954
Net return to equity (\$)	-2,078	-1,347	-834	-4,928	-7,147	-7,756	-8,215	-6,028	-2,989	-5,634
Rate of return to equity (%)	-1.8	-0.1	-0.6	-2.7	-3.7	-3.5	-3.4	-2.2	-1.0	-1.6
<b>Medium farms<sup>b</sup></b>										
Assets (\$)	345,719	392,164	449,019	545,960	581,694	655,942	719,712	801,960	929,849	1,035,995
Debt (\$)	43,261	48,625	54,311	62,764	69,791	77,427	86,688	97,921	111,365	129,988
Equity (\$)	302,457	343,539	394,708	483,196	511,903	568,515	633,024	704,039	818,484	906,007
Debt/Assets <sup>c</sup> (%)	12.5	12.4	12.1	11.5	12.0	11.8	12.0	12.2	12.0	12.5
Total net return <sup>d</sup> (\$)	4,989	10,627	15,273	1,869	-5,297	6,020	-6,663	5,372	18,950	6,930
Net return to equity (\$)	340	5,379	9,031	-4,969	-12,348	-13,578	-14,486	-3,234	9,508	-3,635
Rate of return to equity (%)	0.1	1.6	2.3	-1.0	-2.4	-2.4	-2.3	-0.5	1.2	-0.4
<b>Large farms<sup>b</sup></b>										
Assets (\$)	1,766,083	2,011,408	2,316,657	2,780,407	2,950,190	3,262,474	3,629,406	4,071,969	4,749,412	5,269,281
Debt (\$)	355,946	403,560	452,230	522,522	578,749	643,657	725,157	819,828	940,988	1,101,413
Equity (\$)	1,410,137	1,607,848	1,864,427	2,257,885	2,371,441	2,618,817	2,904,249	3,252,141	3,808,424	4,167,868
Debt/Assets <sup>c</sup> (%)	20.2	20.1	19.5	18.8	19.6	19.7	20.0	20.1	19.8	20.9
Total net return <sup>d</sup> (\$)	38,447	93,104	152,538	-31,544	-137,514	-153,293	-171,635	-20,134	160,268	61,228
Net return to equity (\$)	23,168	75,629	131,244	-54,670	-160,964	-178,503	-197,579	-49,047	128,585	25,908
Rate of return to equity (%)	1.6	4.7	7.0	-2.4	-6.8	-6.8	-6.8	-1.5	3.4	0.6

<sup>a</sup>Includes ranches in the 17 Western States, Louisiana, Florida, Hawaii, and Alaska, where sales of livestock represent 50 percent or more of farm cash receipts, and pasture-land was at least 100 acres and at least 10 times greater than acres of cropland harvested. <sup>b</sup>Based on data from the 1970 Farm Finance Survey, U.S. Census of Agriculture, but updated to reflect changes in the value and income from farm assets. Small farms are those with annual cash farm receipts from \$5,000 to \$9,999; medium farms from \$20,000 to \$39,999 and large farms of \$100,000 and greater. In 1970, the distribution of farm numbers and cash receipts on livestock ranches by the value of cash receipts was:

Farm no. (%)	Farm cash receipts (%)
\$100,000 +	57
\$ 40,000 - 99,999	16
\$ 20,000 - 39,999	11
\$ 10,000 - 19,999	7
\$ 5,000 - 9,999	5
\$ 2,500 - 4,999	4

<sup>c</sup>Dollars of farm debt for each \$100 of farm asset value. <sup>d</sup>Net returns to equity, operator labor, and management. <sup>e</sup>Preliminary.





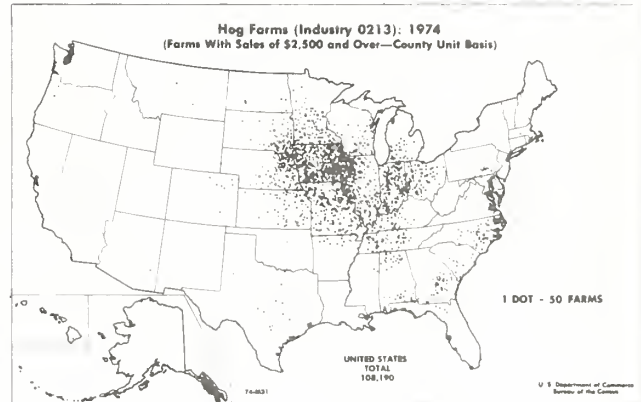
improved winter pasture conditions. For most of 1980, prices for feeder calves have been \$8 to \$10 per cwt. below levels of a year ago. Prices for feeder calves during the fall quarter of 1980 will likely average only slightly less than those of 1979. With generally lower prices and higher production costs, producers will experience a decrease in net returns for 1980 relative to 1979 (table 15). However, equity positions for most cattle producers remain strong and a continued buildup in herd sizes indicates producers' optimism for the years ahead. The January 1, 1981 cow number inventory will likely increase by about 5 percent from the 47.8 million head on farms January 1, 1980.

### Hog Outlook for 1981

If hog producers carry out their June 1, 1980 intentions of decreasing June-November farrowings by 8 percent, hog slaughter during the last half of 1981 could decrease by 8 to 10 percent from last year's level. This may signal a continued improvement in hog prices through 1981 but these gains will be partially offset by higher production costs. Consequently, the overall financial condition of most hog producers is expected to improve only marginally from that of 1980. Average hog prices during the first half of 1981 could range from the upper \$40's to low \$50's per cwt. The unfavorable economic situation in 1980 doubtless forced out many small to medium size producers although the exact extent of the drop is unknown. Currently, nearly one-half of total hog production comes from operators selling 1,000 head or more a year. These operators tend to adjust production downward only under severe economic conditions. Rather than just trim production, they will likely operate until the financial situation causes total cessation. Current projections of hog prices through mid-1981 are near or only slightly higher than many producers' cash costs. Under these conditions, there will be little encouragement for new investments in hog production.

## 1980 Financial Conditions

Meeting cash flow commitments has been a problem for many hog producers since mid-1979 because incomes have generally been less than cash expenses. Thus, the liquidation of sows during late 1979 and again during 1980 was substantially greater than in some previous years. For 1980, as a whole, there were large variations in how well individual producers fared depending on their market timing. The 1980 marketing year has been characterized by substantial fluctuations in hog prices which averaged in the mid-\$30's per cwt. during the first quarter, dropped below \$30 per cwt. in the second quarter, averaged \$46 per cwt. in the third quarter, and will likely average in the mid-\$40's per cwt. in the fourth quarter. Some relief from cash flow difficulties will result from generally improved hog prices during the last half of 1980. However, net returns will increase only marginally because of higher feeding costs. Increases in feeding costs from June to the end of 1980 added about \$5 per cwt. to the cost of producing farrow-to-finish hogs. Thus, sharply lower feed supplies at higher prices will probably result in further pressures to reduce sow inventories and farrowings during late 1980 and early 1981. Also, since many hog producers grow their own corn, they will market their corn on an improving grain price market rather than through a less certain hog market, thereby contributing to sow liquidation.



### Sheep and Lamb Outlook for 1981

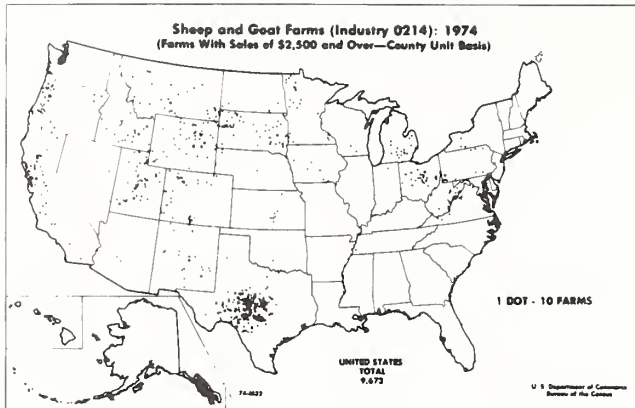
The general financial outlook for sheep and lamb producers continues to be favorable. Relatively stable demand and an overall reduction in lamb slaughter from the somewhat above-normal levels during much of 1980 should result in lamb prices for 1981 averaging above those of 1980. Sheep and lamb producers should have no difficulty obtaining adequate financing for production purposes nor are any loan repayment problems expected.

Persistent problems with predators and obtaining adequate labor for sheep operations will continue to

discourage any rapid expansion in sheep numbers in the United States.

### 1980 Financial Conditions

The overall financial condition for sheep and lamb producers remained favorable in 1980 as it has for



several years. Prices for choice slaughter lambs averaged below year-earlier levels during the first half of 1980, but prices should improve through the remainder of the year. It is expected that the average price for choice lambs will almost equal the 1979 price of \$68 per cwt. Lamb and yearling slaughter during the first half of 1980 was 11 percent above the previous year and contributed to the lower lamb prices during this period. This increased slaughter was somewhat higher than was expected as evidenced by the number of sheep and lambs on farms January 1, 1980 being only 2 percent larger than a year earlier. This was the first increase in sheep and lamb numbers in many years. However, a 6-percent reduction in lambs going to feedlots during early 1980 and earlier than normal movements of lambs off grass in drought affected areas resulted in increased marketings during 1980.

## DAIRY OUTLOOK FOR 1981

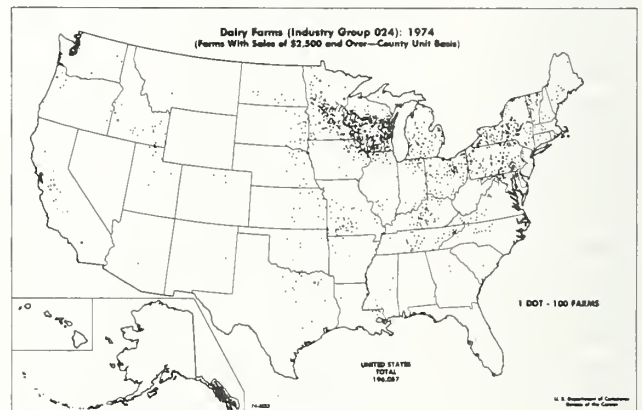
Financial conditions for most dairy farmers are expected to remain strong in 1981. Production costs will increase due primarily to higher feed expenses but milk prices will improve enough to keep net income levels positive. The support price for manufacturing grade milk will be adjusted upward on April 1, 1981 to reflect higher production costs.

The August-September survey of commercial banks indicated a continuation of the strong situation for dairy farmers in 1981 (table 11). A majority of bankers indicated that net income and net worth levels through mid-1981 are expected to be the same or higher relative to year-earlier levels. No major problems in loan repayment ability are expected.

### 1980 Financial Conditions

The strong financial condition that has existed for most dairy farms in recent years continued during 1980. These favorable conditions resulted in an increase of about 3 percent in total milk production in 1980 and an increase in number of cows kept for milk production, the first such annual increase since 1954. For the year, milk prices will average about \$13 per cwt., up 8.3 percent from 1979 and enough to mostly offset steadily increasing production costs. Milk prices received by farmers trended upward from midsummer and were boosted further on October 1, 1980 by an increase in the support price to \$13.10 per cwt. for milk containing 3.67 percent fat. The

Secretary of Agriculture is required by law to set the price support for manufacturing grade milk at 80 percent of parity on October 1 and make a mid-year adjustment to reflect changes in costs of production.



Government purchase of manufactured dairy products will have increased substantially during 1980 due to an imbalance between production and commercial use disappearance. Government purchases, the vehicle by which manufactured grade milk prices are supported, were 8.2 billion pounds (milk equivalent) with expenditures of nearly \$1.3 billion for the marketing year ending September 30, 1980.

Table 16—Average per farm level of debt, equity, and returns on U.S. dairy farms<sup>a</sup>

	Year									
	1970	1972	1973	1974	1975	1976	1977	1978	1979	1980 <sup>e</sup>
<i>Average per farm</i>										
<b>Small farms<sup>b</sup></b>										
Assets (\$)	42,606	48,174	54,711	65,504	70,081	78,267	86,618	96,174	110,736	122,993
Debt (\$)	5,879	6,652	7,450	8,608	9,542	10,607	11,935	13,490	15,455	18,079
Equity (\$)	36,726	41,522	47,261	56,896	60,539	67,660	74,683	82,684	95,281	104,914
Debt/Assets <sup>c</sup> (%)	13.8	13.8	13.6	13.1	13.6	13.6	13.8	14.0	14.0	14.7
Total net return <sup>d</sup> (\$)	3,356	3,518	3,653	2,779	3,271	4,478	4,911	5,692	6,950	6,889
Net return to equity (\$)	-497	-744	-1,209	-2,630	-2,466	-1,642	-1,490	-1,194	-619	-1,633
Rate of return to equity (%)	-1.4	-1.8	-2.6	-4.6	-4.1	-2.4	-2.0	-1.4	-0.6	-1.6
<b>Medium farms<sup>b</sup></b>										
Assets (\$)	112,397	127,004	144,311	173,290	186,167	207,918	230,083	255,412	293,949	326,804
Debt (\$)	27,612	31,154	34,847	40,269	44,699	49,644	55,735	62,981	71,921	84,052
Equity (\$)	84,784	95,850	109,464	133,021	141,468	158,274	174,348	192,431	222,028	242,752
Debt/Assets <sup>c</sup> (%)	24.6	24.5	24.1	23.2	24.0	23.9	24.2	24.7	24.5	25.7
Total net return <sup>d</sup> (\$)	10,767	11,119	10,447	8,279	9,830	14,114	15,330	17,855	22,439	21,980
Net return to equity (\$)	4,585	4,161	2,223	-752	479	4,097	4,939	6,470	9,944	7,986
Rate of return to equity (%)	5.4	4.3	2.0	-0.6	0.3	2.6	2.8	3.4	4.5	3.3
<b>Large farms<sup>b</sup></b>										
Assets (\$)	507,805	575,913	657,020	786,772	833,146	933,211	1,035,749	1,153,540	1,336,129	1,485,234
Debt (\$)	146,079	165,644	185,632	214,485	237,549	264,202	297,688	336,558	386,359	452,250
Equity (\$)	361,726	410,269	471,388	572,287	595,597	669,009	738,061	816,982	949,770	1,032,984
Debt/Assets <sup>c</sup> (%)	28.8	28.8	28.3	27.3	28.5	28.3	28.7	29.2	28.9	30.4
Total net return <sup>d</sup> (\$)	43,263	42,998	28,631	1,037	11,363	43,354	53,808	67,850	96,604	84,889
Net return to equity (\$)	25,961	23,407	5,210	-24,575	-14,951	15,130	24,600	35,663	61,299	45,417
Rate of return to equity (%)	7.2	5.7	1.1	-4.3	-2.5	2.3	3.3	4.4	6.5	4.4

<sup>a</sup>Farms with dairy products accounting for more than 30 percent of value of products sold. <sup>b</sup>Based on data from the 1970 Farm Finance Survey, U.S. Census of Agriculture, but updated to reflect changes in the value and income from farm assets. Small farms are those with annual cash farm receipts from \$5,000 to \$9,999; medium farms from \$20,000 to \$39,999 and large farms of \$100,000 and greater. In 1970, the distribution of farm numbers and cash receipts on dairy farms by the value of cash receipts was:

Farm no. (%)	Farm cash receipts (%)
\$100,000 +	16
\$ 40,000 - 99,999	26
\$ 20,000 - 39,999	35
\$ 10,000 - 19,999	17
\$ 5,000 - 9,999	5
\$ 2,500 - 4,999	1

<sup>c</sup>Dollars of farm debt for each \$100 of farm asset value. <sup>d</sup>Net returns to equity, operator labor, and management. <sup>e</sup>Preliminary.



## POULTRY OUTLOOK FOR 1981

The financial outlook for poultry producers in 1981 is mixed. Although the price-cost situation for the first half of 1981 could be near breakeven, the second half may be more favorable.

Broiler producers can expect much higher prices in 1981 than this year. However, increased costs of production will tend to hold profit levels near those of a year ago. Year-to-year increases in beef production in the first half of 1981 will tend to limit broiler price gains. However, in the second half of 1981, broiler prices should strengthen as pork and beef prices rise.

Egg producers' returns will likely be near costs during much of 1981 if producers continue to increase culling when prices drop below costs. Production will likely be 1 percent below that of 1980. Moreover, costs will increase with higher feed grain prices. The demand for eggs should be strengthened by the slowly expanding economy and reduced output of other high-protein foods.

Turkey prices are expected to be much higher than a year earlier in the first half of 1981. Number of eggs set and poults hatched during September 1980 indicate turkey producers are planning to increase production during 1981. Current profitability is encouraging increased production in spite of much higher costs. Thus, even with improved prices, turkey producers will likely face unfavorable returns during the first half of 1981 because of offsetting higher costs. Returns should improve during the second half as prices strengthen seasonally, red meat production declines, and demand strengthens.

### 1980 Financial Conditions

Broiler producers' net incomes were negative during the first half of 1980. Increased broiler output, along with record pork production, drove prices below costs of production. The situation improved dramatically when pork production declined seasonally in the third quarter and record hot weather caused extensive broiler deaths and reduced rates of gain. The hot, dry weather has also reduced grain production and consequently increased feed prices, which may limit returns next year. Since mid-1980, broiler prices have advanced than costs, making production profitable.

Egg producers have been in an unfavorable financial situation during most of 1980. In the first half of the year, low prices kept producers' net returns negative. In the second half of 1980, egg prices have improved but production costs have increased. Thus, egg producers remain in a cost-price squeeze which may be eased with increased seasonal demand in the fourth quarter of 1980.

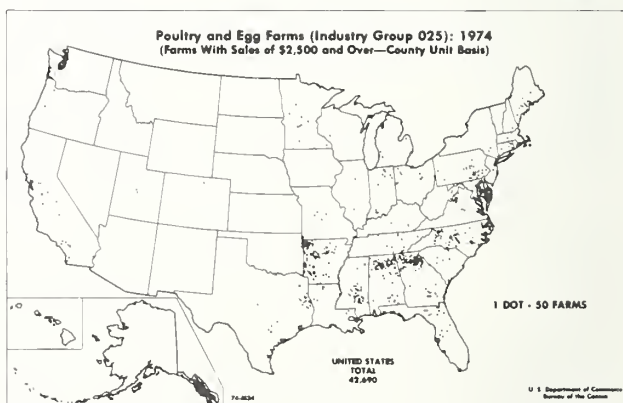
Turkey production was profitable from 1977 through the first quarter of 1980. However, the competition from other high-protein foods and large cold storage stocks drove prices below the breakeven point in the second quarter of 1980. Reduced production relative to 1979 and the reduction in frozen inventories will likely result in profitable production during the second half of 1980.

## CASH GRAIN FARMS

### Cash Grain Outlook for 1981

Net farm earnings on grain farms are expected to improve substantially in 1981. This is due to three factors; (1) farmers will be coming off a bad year in terms of farm earnings; (2) 1981 carryover stocks will be down substantially for most major crops with the exception of wheat and rice; (3) crop prices are expected to be strong through 1981.

The optimistic outlook for farm earnings was the primary reason most of the respondents to the Farm Credit Surveys expected grain farmers debt servicing ability to improve in 1981. However, in areas affected by the drought, farmers will be carrying a higher than normal debt load, which will considerably increase their financial risk during the 1981 crop year. Many farmers obtained extensions and renewals on outstanding debt while others refinanced short term debt with longer term real estate secured loans. Although this refinancing tends to



lower the periodic debt servicing obligation on existing debt, the debt servicing demands placed upon farm income in 1981 are expected to be considerably higher in the drought-stricken areas. Of course, grain farmers located in areas not affected by these



adverse weather conditions will enter 1981 with an improved financial risk exposure producing an offsetting effect in the aggregate.

Net worth is expected to rise in 1981. However, since this increase is largely due to an anticipated rise in land values, it will not provide the means to service debt. However, it will provide a wealth base for supporting a rise in debt outstanding.

The availability of loan funds should not be a problem in 1981. Over 70 percent of the surveyed bankers servicing grain farms indicated that they expected to have an adequate supply of funds to meet loan demand. Of that same sample of bankers, 60 to 70 percent felt that they would not need to increase their use of funds from sources other than deposits in order to meet farm loan demand.

A major source of uncertainty in 1981 is the cost of debt funds. The level of interest rates varied widely in 1980 producing concern about future interest rates. If farmers are faced with high interest rates again in the spring of 1981, severe problems could arise for grain farmers already overburdened with debt.

### 1980 Financial Conditions

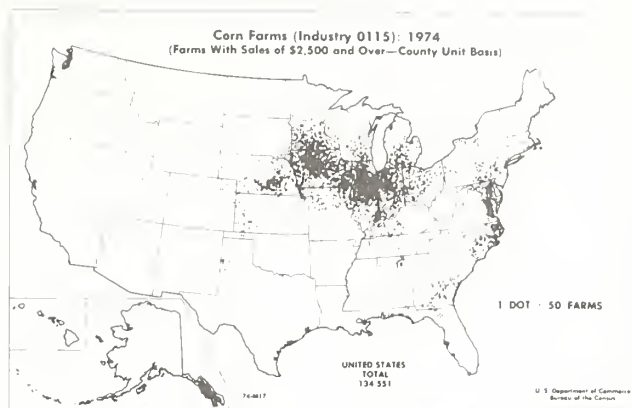
Overall net farm earnings on grain farms are expected to decline in 1980 relative to 1979. However, there are great regional differences which correspond largely to the weather conditions experienced by each section of the country. Areas hard hit by the drought show low net farm earnings and a decline in ability to service debt. Many of these farmers will need to rely on emergency assistance and/or refinancing of current debt. On the other hand, areas such as Wisconsin, Ohio, and Michigan expect favorable farm income in spite of the high cost of borrowing and rising input costs.

In general, the adverse financial and production conditions which grain farmers faced in 1980 required that they reduce the purchase of various inputs such as fertilizer and other chemical inputs as well as capital equipment. Most agricultural lenders report an increase in loan renewals and extensions for all farms.

Most respondents to the Farm Credit Survey indicated that net worth of grain farms either declined or remained the same during 1980. A factor in explaining this phenomenon is the expected decline in the growth in real estate values for 1980.

### Corn

Corn prices at the farm are expected to average \$3.30 to \$3.75 per bushel in 1980/81, up from \$2.50 in 1979/80 when production, supply, and use were at record levels. Carryover stocks on October 1, 1980 were 1,597 million bushels, the largest since the record 1960/61 carryover of 2,061 million bushels.



The 1980 corn crop is forecast at 6.46 billion bushels, 17 percent below 1979's record crop because of lower yield. Planted acreage was 83.5 million, up from 80.0 million in 1979; harvested acreage was 71.2 million, virtually the same as the 71.0 million acres in 1979. Yield per harvested acre was 90.8 bushels, down sharply from the record 109.4 bushels in 1979 when weather conditions were ideal.

The crop and the large carryover put the corn supply for 1980/81 at 8,065 million bushels, 11 percent below the 1979/80 record. Total use of corn in 1980/81, however, is likely to reach a record of around 7,465 million bushels, nearly the same as 1979/80's use of 7,454 million bushels. Domestic use will likely be down only about 3 percent. Food, seed, and industrial uses are expected to increase about 14 percent to around 715 million bushels, due mainly to increased use for high fructose syrup and for gasohol. This will partially offset a reduction of about 5 percent in livestock and poultry feeding. Feed use is projected at about 4,200 million bushels, down from 4,429 million bushels in 1979/80 as reductions in hog and poultry feeding more than offset an increase in cattle feeding. Exports are projected at 2,550 million bushels, 4 percent more than the 1979/80 record.

Disappearance at these levels would leave carryover stocks on October 1, 1981, of about 600 million bushels, the smallest since 1975/76. This would result in the call of all corn from the farmer-owned reserve and liquidation of the CCC inventory. Free stocks would be about 600 million bushels, compared with 701 million at the end of 1979/80.

The U.S. average cost of producing corn in 1980 is projected at \$2.00 to 2.35 per bushel, excluding land costs. This estimate is based on a yield of 91.5 to 107.3 bushels per harvested acre. This compares with the \$1.59 preliminary estimate for 1979 when the yield was estimated at 109.2 bushels. Land cost are projected at \$0.62 per bushel based on acquisition costs and \$1.24 based on current costs. These projections compare with 1979 preliminary estimates of \$0.54 and \$0.98, respectively. Average renter cost of

Table 17--Average per farm level of assets, debt, equity, and returns on U.S. cash grain farms<sup>a</sup>

	Year										
	1970	1972	1973	1974	1975	1976	1977	1978	1979	1980 <sup>e</sup>	
	Average per farm										
Small farms <sup>b</sup>											
Assets (\$)	78,311	87,344	98,984	99,010	135,839	151,947	168,368	183,174	208,236	235,580	
Debt (\$)	10,511	11,784	13,148	15,196	16,918	18,755	20,958	23,668	26,841	31,304	
Equity (\$)	67,799	75,560	85,836	111,376	118,921	133,192	147,410	159,506	181,395	204,276	
Debt/Assets <sup>c</sup> (%)	13.4	13.5	13.3	15.3	12.5	12.3	12.4	12.9	12.9	13.3	
Total net return <sup>d</sup> (\$)	4,592	4,890	8,244	12,464	9,741	8,234	6,536	6,861	7,449	7,371	
Net return to equity (\$)	411	258	3,940	6,571	3,507	1,581	-417	-631	2,986	-1,895	
Rate of return to equity (%)	0.6	0.3	4.6	5.9	2.9	1.2	-0.3	-0.4	1.6	-0.9	
Medium farms <sup>b</sup>											
Assets (\$)	215,249	240,115	273,905	351,986	375,635	419,635	464,278	505,164	575,038	650,982	
Debt (\$)	30,152	33,961	37,963	43,870	48,735	54,099	60,662	68,537	78,123	91,251	
Equity (\$)	185,097	206,154	235,942	308,116	326,900	365,536	403,616	436,627	497,015	589,731	
Debt/Assets <sup>c</sup> (%)	14.0	14.1	13.9	12.5	13.0	12.9	13.1	13.6	13.6	14.0	
Total net return <sup>d</sup> (\$)	16,649	17,657	55,415	48,875	38,361	36,631	25,452	26,155	29,309	29,318	
Net return to equity (\$)	10,380	10,546	26,787	39,559	28,813	22,385	14,862	14,458	16,482	14,984	
Rate of return to equity (%)	5.6	5.1	11.4	12.9	8.8	6.1	3.7	3.3	3.3	2.5	
Large farms <sup>b</sup>											
Assets (\$)	1,035,771	1,155,025	1,309,521	1,680,376	1,800,289	2,016,095	2,235,988	2,430,377	2,763,149	3,130,537	
Debt (\$)	168,986	189,856	212,020	245,025	272,510	302,291	338,336	382,156	434,415	506,987	
Equity (\$)	866,785	965,169	1,097,501	1,435,351	1,527,779	1,713,804	1,897,652	2,048,221	2,328,734	2,623,650	
Debt/Assets <sup>c</sup> (%)	16.3	16.4	16.2	14.6	15.1	15.0	15.1	15.7	15.7	16.2	
Total net return <sup>d</sup> (\$)	72,549	76,074	182,830	265,331	201,636	166,225	119,442	116,599	137,781	134,162	
Net return to equity (\$)	52,462	53,156	154,491	285,096	170,876	133,176	85,368	78,750	96,294	87,879	
Rate of return to equity (%)	6.1	5.5	14.1	16.4	11.2	7.8	4.5	3.8	4.1	3.3	

<sup>a</sup>Farms on which 50 percent or more of farm cash receipts are from crops of corn, sorghum, small grains, soybeans for beans, cowpeas for peas, dry field and seed beans, or peas. <sup>b</sup>Based on data from the 1970 Farm Finance Survey, U.S. Census of Agriculture, but updated to reflect changes in the value and income from farm assets. Small farms are those with annual cash farm receipts from \$5,000 to \$9,999 in 1970; medium farms from \$20,000 to \$39,999 in 1970 and large farms of \$100,000 and greater. In 1970, the distribution of farm numbers and cash receipts on cash grain farms by the value of cash receipts was:

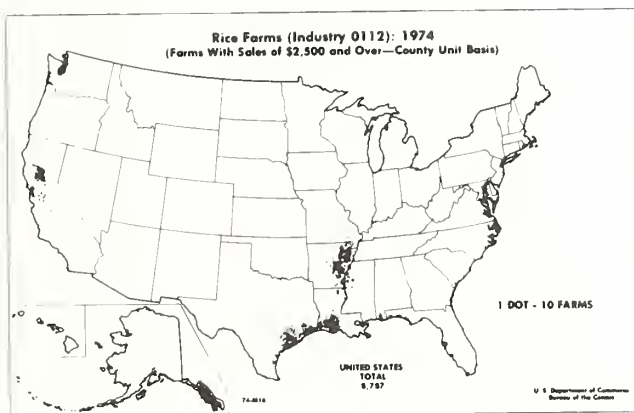
Farm no. (%)	Farm cash receipts (%)
\$100,000 +	11
\$ 40,000 - 99,999	26
\$ 20,000 - 39,999	30
\$ 10,000 - 19,999	20
\$ 5,000 - 9,999	9
\$ 2,500 - 4,999	4

<sup>c</sup>Dollars of farm debt for each \$100 of farm asset value. <sup>d</sup>Net returns to equity, operator labor, and management. <sup>e</sup>Preliminary.

producing corn in 1980 is projected at \$3.05 per bushel, compared with the preliminary estimate of \$2.25 for 1979.

### Rice

Rice yields for 1980 declined 5 percent from 1979 levels with a total 1980 harvest of 146 million cwt. from 3.3 million acres, compared with a 1979 harvest of 132 million cwt. from 2.9 million acres. Extremely hot and prolonged dry weather this year cut crop yield prospects from year-earlier levels. Beginning stocks for 1980/81 are down nearly 6 million cwt. from 1979/80 levels. However, total supplies for 1980/81, at 168 million cwt., are up 5 million cwt. from 1979/80. Total disappearance is expected to total 137 million cwt., or 4 percent more than in 1979/80. Domestic use for 1980/81 may total 50 million cwt., or nearly 7 percent more than in 1979/80. Export sales for 1980/81 are projected to be 87 million cwt., which is an increase of 3 percent from 1979/80.



Average farm price for 1980/81 may be relatively unchanged from 1979/80 which largely reflects large world supplies and significant quality difference in the U.S. 1980 crop compared with the 1979 harvest. Somewhat lower crop quality this year may have an adverse effect on anticipated export sales since world rice production is at record levels at 392 million tons—2 percent above the previous record set in 1978/79. Despite excellent world crop prospects, international rice trade in calendar 1981 is expected to be almost the same as in 1980.

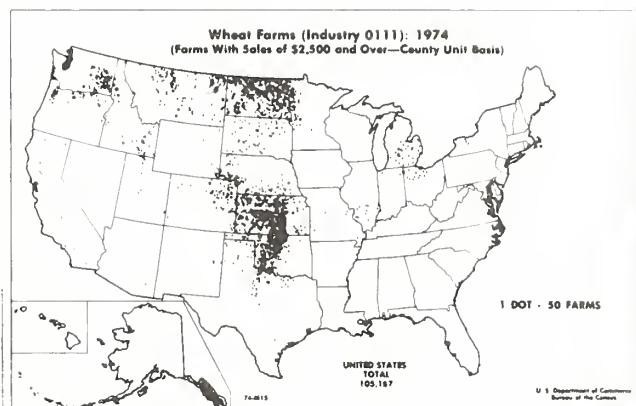
Given the supply-demand outlook, ending stocks next August 1 are expected to be 31 million cwt., about 23 percent above this year's levels. All the carryover will be free stocks, since the Commodity Credit Corporation is expected to ship its remaining inventory of nearly 2 million cwt. under the Title II program of P.L. 480.

U.S. rice production costs for 1980, excluding land, are estimated at \$8.30 to \$8.87 per cwt. This compares with the preliminary cost estimate of \$6.84 for

1979, and a revised 1978 cost of \$6.24. Average renter costs per cwt. for the three years are \$11.04, \$8.80, and \$7.92, respectively.

### Wheat

The record 1980 wheat crop of 2.4 billion bushels from a record 72 million acres harvested, increased the total wheat supply for the 1980/81 marketing year to a record 3.6 billion bushels, up slightly more than 6 percent from 1979/80. However, both domestic and foreign demand will be strong, and prices received by farmers are expected to average \$3.95 to \$4.25 per bushel in 1980/81, compared with \$3.82 in 1979/80. Since May, farm prices of wheat have increased and are expected to continue to be higher than last year for the rest of the 1980/81 marketing year.



U.S. exports will depend to some extent on sales policies and transportation and labor problems of other exporting countries. However, based on world trade projections, the United States is expected to export a record 1.45 billion bushels of wheat in 1980/81. Early season U.S. trade was marked with large increases in purchases by China. On the basis of greater demand in many importing countries and a need to rebuild stocks, world wheat trade in 1980/81 will likely be up 2 million metric tons from 1979/80 to a record 86 million tons. The U.S. share of world wheat exports for 1980/81 is expected to slightly exceed the 45-percent level achieved during 1979/80.

Farm value of wheat production for 1980 is estimated at \$9.6 billion. This 15-percent increase over 1979 reflects a higher average farm price and a larger harvest. Carryover stocks for 1980/81 next July 1 are expected to be up about 8 percent from a year earlier. This will reverse the drawdown during the 2 previous years.

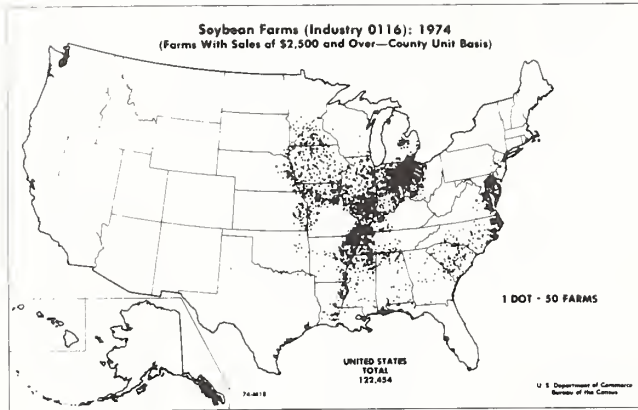
U.S. wheat production costs for 1980, excluding land, are estimated to be between \$3.31 and \$3.79 per bushel. This compares with the preliminary cost estimate of \$2.74 for 1979, and a revised 1978 cost of



\$2.48. Average renter costs per bushel for 1980, 1979, and 1978 are \$5.00, \$3.93, \$3.69, respectively.

### Soybeans

The 1980 soybean crop is expected to be about 1.77 billion bushels, nearly a quarter smaller than the record 1979 crop of 2,268 million bushels. However, because of the record old-crop carryover of 359 million bushels on September 1, the 1980/81 soybean supply may be only 9 to 14 percent smaller than the record 1979/80 supply of 2,442 million bushels.



In the 1979/80 marketing year, large U.S. and world supplies weakened soybean prices through mid-June 1980. But prices rose sharply by mid-July because hot, dry weather in the Plains States pointed to a larger reduction in the 1980 crop than had been expected earlier. Strong domestic and foreign demand also contributed to the price strength during the summer along with smaller than expected crops in Brazil and Argentina, and sharply reduced flaxseed and rapeseed crop prospects in Canada. Soybean prices at the farm averaged \$6.25 per bushel in 1979/80, down only moderately from a year ago despite the record supply.

Soybean prices will be considerably higher in 1980/81 as carryover stocks decline and both domestic use and exports continue at high levels, although somewhat below the 1979/80 records. Prices of soybeans at the farm likely will average \$7.35 to \$9.85 per bushel in 1980/81. Crushings are projected at around 1,040 million bushels, down from 1,123 million last year; exports are projected at around 825 million

bushels, down from 875 million. This level of disappearance would bring carryover stocks on September 1, 1981 down to about 165 million bushels.

The U.S. average cost of producing soybeans in 1980 is projected at \$4.37 to \$4.89 per bushel, excluding land costs, based on yield of 28.3 to 31.7 bushels per harvested acre. This compares with a \$5.53 preliminary estimate for 1977, when the yield was 31.9 bushels. Land costs are projected at \$1.87 per bushel based on acquisition costs and \$3.52 based on current costs. These projections compare with 1979 preliminary estimates of \$2.93 and \$1.71, respectively. Average renter cost of producing soybeans in 1980 is projected at \$6.97 per bushel, compared with the preliminary estimate of \$5.53 for 1979.

### Sorghum

Sorghum prices are expected to average \$3.20 to \$3.60 per bushel at the farm in 1980/81, compared with \$2.35 in 1979/80.

The 1980 sorghum crop is forecast at 551 million bushels, a third less than the 1979 crop. Plantings of 15.8 million acres were up 3 percent but acreage to be harvested for grain is estimated at 12.1 million acres, 6 percent less than in 1979. Yield per harvested acre is forecast at 45.3 bushels, compared with the 1979 record of 62.9 bushels.

The sorghum supply of 693 million bushels for 1980/81 is nearly a third smaller than the previous year. Both domestic use and exports likely will be about a third smaller in 1980/81 than in 1979/80. Carryover stocks at the end of 1980/81 are expected to be down to about 71 million bushels, the smallest since 1975/76.

The U.S. average cost of producing sorghum in 1980 is projected at \$2.52 to \$3.01 per bushel, excluding land costs, based on yields of 49.6 to 59.2 bushels per harvested acre. This compares with the \$1.94 preliminary estimate for 1979, when the yield was estimated at 61.6 bushels.

Land costs are projected at \$0.54 per bushel based on acquisition costs and \$0.91 based on current costs. These projections compare with 1979 preliminary estimates of \$0.49 and \$0.75, respectively. Average renter cost of producing sorghum in 1980 is projected at \$3.76 per bushel, compared with the preliminary estimate of \$2.67 for 1979.

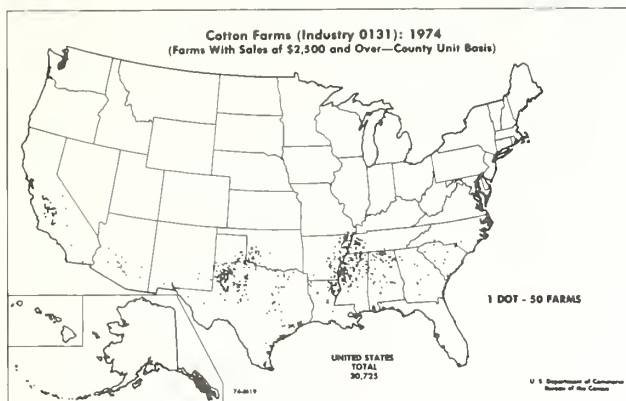
## COTTON OUTLOOK FOR 1981

The cash flow situation and general financial position of most cotton farmers will likely improve substantially in 1981. Total gross farm income per acre from cotton will improve significantly if prices remain above 1980 levels and more favorable grow-

ing conditions result in a larger crop. However, net farm income from cotton will not increase as much as total income since production costs per acre will likely increase.

Higher prices during 1980, resulting primarily





from an unexpectedly low 1980 cotton production of 11.2 million bales, along with the relatively low August 1, 1980 stocks of 3.0 million bales, could result in plans for increased production in 1981.

The use of borrowed funds for producing cotton in 1981 will likely increase over 1980's use about as much as total production expenses increase. Although interest rates will be high by historical standards, they will likely show fewer large fluctuations than was the case in 1980. Loans from some lenders, particularly banks and some merchants and dealers, may be somewhat restricted in areas where farm income during 1980 has not been sufficient to maintain desirable bank loan to deposit ratios. This situation is rather localized, however. Affected borrowers in those areas may have to switch to alternate sources of credit such as production credit associations and Farmers Home Administration. No general shortage of loan funds is expected.

### Financial Conditions in 1980

Although cotton harvested was up by 400,000 acres in 1980 over 1979, production will be down one-fifth, primarily due to sharply lower yields per acre of dryland cotton resulting from drought and extraordinarily hot weather during critical growing periods (table 18). Prices which have shown sharp gains since July will offset much of the lower pro-

duction and hold the total value of the 1980 crop close to the \$4.4 billion value of the 1979 crop.

The distribution of the income from 1980 cotton sales will not be evenly distributed, however. Production in regions with a heavy concentration of irrigated acres, particularly in California, Arizona, New Mexico, and Texas, are harvesting relatively high yields. On the other hand, dryland cotton growers in most areas are receiving yields that are much lower than usual.

Despite the drought conditions, abandonment of planted acres is not excessive in 1980 compared with recent years except possibly in the Southeast (table 19). It appears that although most dryland cotton acreage was severely stressed by drought and heat, it still produced some cotton and was harvested. Perhaps most cotton producers will receive some benefit from the higher prices this fall.

Table 19—Percent of cotton acreage abandoned before harvest, by region, 1976-80<sup>a</sup>

Year	Southeast	Delta	Southwest	West	U.S.
	Percent				
1976 . . .	7.2	8.6	6.1	1.0	6.4
1977 . . .	11.6	2.4	3.0	.7	3.1
1978 . . .	5.0	4.5	10.2	2.5	7.4
1979 . . .	2.7	5.7	11.0	2.0	8.1
1980 <sup>b</sup> . .	4.3	5.0	10.4	1.7	7.5

<sup>a</sup>Harvested acres as a percent of planted acres. <sup>b</sup>Preliminary.

Forward contracting of cotton was especially active in the Delta States in 1980 (table 20). By the end of March, almost half of the 1980 crop had been sold. Growers in the Southeast also had contracted to sell a substantial portion of their crop by early spring. There is no way of knowing the price at which these contracts were pegged, but it is probably safe to say the price was well below the farm prices received in August or later. It is also possible that some growers in the Delta States will be hard pressed to produce enough cotton to honor their total contract commitments.

Table 18—Upland cotton: Acreage, yield per acre, production, and average cost of production by region, 1979-80<sup>a</sup>

Item	Region									
	Southeast		Delta		Southwest		West		U.S.	
	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980
Acreage (1,000 acres) . . .	618	661	2,392	2,935	7,380	7,295	2,337	2,324	12,727	13,215
Yield (lbs. lint per acre) . . . . .	496	354	614	404	393	256	985	960	548	417
Production (1,000 bales). . . . .	639	488	3,061	2,470	6,037	3,890	4,794	4,644	14,531	11,492
Production costs (cents per lb. of prod.) <sup>b</sup> . . . . .	75	( <sup>c</sup> )	58	( <sup>c</sup> )	50	( <sup>c</sup> )	56	( <sup>c</sup> )	55	66-80

<sup>a</sup>1980 data preliminary. <sup>b</sup>Excludes land and management charges. <sup>c</sup>Not available.

Table 20—Average price received for upland cotton by farmers and volume of upland cotton contracted for sale by region, by months, 1979-80

Month	Average price received by farmers, U.S.		Percentage of upland cotton acreage contracted for sale by end of month, 1979 and 1980									
			Southeast		Delta		Southwest		West		U.S.	
	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980
January. . . . .	57.0	59.8	4	8	10	38	5	7	10	11	7	14
February. . . . .	55.6	62.9	5	15	15	44	7	9	13	14	10	17
March. . . . .	53.5	60.7	6	17	16	46	7	10	16	16	11	19
April. . . . .	54.7	58.5	8	17	17	46	8	10	16	16	11	19
May. . . . .	56.0	59.6	9	18	19	46	8	11	16	17	12	19
June. . . . .	58.8	56.3	11	18	24	48	10	13	20	18	14	21
July. . . . .	61.9	72.4	11	23	24	51	10	13	22	25	15	24
August. . . . .	59.2	74.0	12	30	31	60	12	16	23	37	18	30
September. . . . .	57.3	82.3	14	32	33	62	14	20	26	40	20	33
October. . . . .	61.3											

Reports from major lenders and other knowledgeable people in cotton areas make little mention of greater than usual difficulty in repayment of loans. However, there are likely some localized areas where income from cotton may have barely covered cash expenses and cash flow stress will occur.

Upland cotton production costs per planted acre (excluding land costs) are estimated at \$359 in 1980, up from \$305 last year. Per pound costs will increase sharply this season due to the expected lower yields. Based on the estimate of 392 pounds per planted acre, per pound costs total 92 cents (excluding a charge for land) in 1980, compared with about 60 cent in 1979. Adjusted for the value of cottonseed sales, costs this year for upland cotton are close to 80 cents a pound, up from 55 cents last season.

Therefore, with estimated total per pound cost of production above average farm prices, many producers will not cover full costs during 1980. However, variable costs per pound are generally below farm prices and most production expenses should be met. In addition, while no exact estimates are available, off farm earnings will be increased and will prove helpful in meeting cash commitments. The target price and loan provisions of the Food and Agriculture Act of 1977 are not likely to come into play for cotton producers this year. Deficiency payments would

be made to eligible cotton producers if the national average price of upland cotton during calendar year 1980 is below the 58.4 cents per pound target price. But during the first 8 months of 1980, upland prices averaged 62.5 cents per pound. Since prices have continued relatively high this fall, it is highly unlikely that deficiency payments will be made. However, because of adverse growing conditions in most areas, except possibly in the West, disaster payments totaling as much as \$150 million could be made. Such payments are made to eligible producers whose 1980 production losses exceed 25 percent of their farm payment yield. The disaster payment rate is one-third of the target price or 19.4 cents per pound on the 1980 crop.

Cotton production continues shifting to lower-cost producers and production areas. Production in the near-term should continue to shift out of the Southeast and Delta States into the Southwest and West. For 1980/81, over 75 percent of the total crop is expected from these two areas. In the long run, however, water problems and higher energy costs in the irrigated West may modify or may even cause a reversal of the trend. In fact, some knowledgeable people believe that the limit to further westward expansion in cotton acreage is growing near.

## TOBACCO OUTLOOK FOR 1981

Tobacco supplies for the 1980/81 marketing year vary from ample to tight among the various types of tobacco. This year's total production recovered from last year's 36-year low, but will have to be supplemented by current stocks to meet anticipated use for 1980/81.

Government price support is mandatory for tobacco produced under marketing quotas. The legal formula requires that price support levels for eligible tobacco go up about 11 percent in 1981 over 1980. Lower expected net returns to tobacco producers due

to higher production costs will continue to put downward pressure on quota lease rates in 1981. Carryover of flue-cured and burley under quota marketings from the 1980 crop may total about the same as a year ago, so the size of the 1981 crop quota depends primarily on the quota level set by USDA announced on December 1, 1980, (flue-cured) and February 1, 1981 (burley and other kinds). The tobacco price support and marketing quota program is authorized by permanent legislation and therefore does not require new legislation in the Farm Bill for 1981.

The most notable development for U.S. producers in 1980 was the hot, dry growing season that reduced the quality of the flue-cured crop. Total tobacco production in 1980 did increase by 17 percent from year-earlier levels but yield increases were less than expected from a 12 percent increase in tobacco acres planted. With larger acreage, flue-cured growers are selling about 13 percent more in 1980 than a year

ago. The 1980 auction season ended during early November 1980, and flue-cured tobacco averaged \$1.45 per pound, 5 cents above a year ago.

The burley crop is one-fourth larger in 1980 than in 1979. The burley markets open in late November and prices during 1981 are expected to rise to an all-time high, surpassing the 1979 season's record of \$1.45 per pound.

## PEANUT OUTLOOK FOR 1981

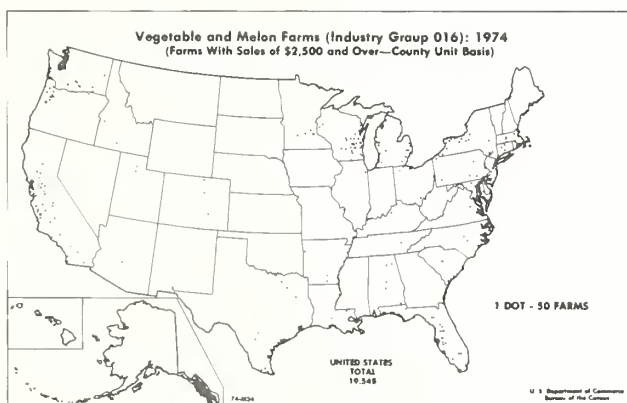
Peanut supplies will be extremely tight during the 1980/1981 marketing year as a result of the shortest crop since the mid-1960's. Dry weather in the major production areas during 1980 reduced yields an estimated one-third or more below 1979 levels and overall production for 1980 will be down by nearly one-half from only 1 percent fewer acres. Expected higher prices at the wholesale level will likely do little to improve the income prospects for growers who deliver under previously established price contracts. Other growers, including those who are members of cooperatives, will benefit from expected price

increases. In order to obtain peanuts to fulfill supply contracts, shellers have rapidly increased offers for edible peanuts to as much as \$180 per short ton above the support level of \$455 per ton.

Under the current law, an annual import quota of 1.7 million pounds (farmers stock basis) applies. A hearing is set for December 1, 1980 at the U.S. International Trade Commission to review the quota situation because of the very tight supply situation for 1980/1981. The USDA is required to announce the 1981 national poundage and national acreage allotment by December 1.

## VEGETABLE FARMS OUTLOOK FOR 1981

Producers of fresh market vegetables will enter 1981 in good financial condition, but labor disputes, transportation difficulties, and higher production costs will continue to affect them adversely throughout the upcoming year. Price increases will probably average less than the current rate of inflation, and growers' financial condition will be weaker than in 1980.



Total receipts from sales of vegetables for processing are expected to average lower than last year and growers should be in a less favorable financial condition during the 1980/81 season.

Financial conditions for potato producers should be very favorable well into the summer of 1981. With

lighter supplies in prospect, processor demand for potatoes is expected to be strong in 1980/81 as inventories of frozen potato products are being depleted. However, higher raw product prices will keep the total quantity processed well below 1978 levels when surplus potatoes were available at very low prices. Prices declined from their high August levels when harvest of the fall crop began but should remain well above the 1979/80 level throughout the first half of 1981.

The financial outlook for dry bean growers is excellent. The 1980/81 crop, currently estimated at a record 23.9 million cwt. is 15 percent higher than last year, and given strong export potentials, prices are expected to be favorable this crop year.

### 1980 Financial Conditions

**Fresh Market Vegetables:** Producers of vegetables for the fresh market had another good year in 1980, despite low prices during the first quarter. Mild winter weather fostered larger crops of cabbage, lettuce and other vegetables depressing first quarter prices to the lowest levels in recent years. Prices rose above year earlier levels in the second quarter and are expected to remain above 1979 levels during the remainder of 1980. However, because of the low first quarter prices, average yearly prices paid to growers of fresh market vegetables are expected to be about the same as in 1979.



Total U.S. vegetable production is comprised of winter, spring, summer, and fall crops. Production of winter vegetables in 1980 was up 8 percent, however, production of spring vegetables and melons was down 2 percent. Summer and fall crops are estimated to be down 2 percent and 4 percent, respectively, due to a decrease in planted acreage. Imports of tomatoes dropped while imports of peppers and cucumbers rose. Overall, total imports for the year (mostly from Mexico) increased by 1 percent.

In spite of low first quarter prices, the total value of fresh vegetables marketed was \$1.1 billion during the first half of 1980, only slightly less than a year earlier. Values are expected to be slightly above last year's level for the remainder of 1980. Due to substantially higher production costs, net income for 1980 will probably be slightly lower than in 1979.

**Processed Vegetables:** Raw tonnage of seven major processing vegetables in 1980 is expected to be 15 percent smaller than in 1979. Major decreases are

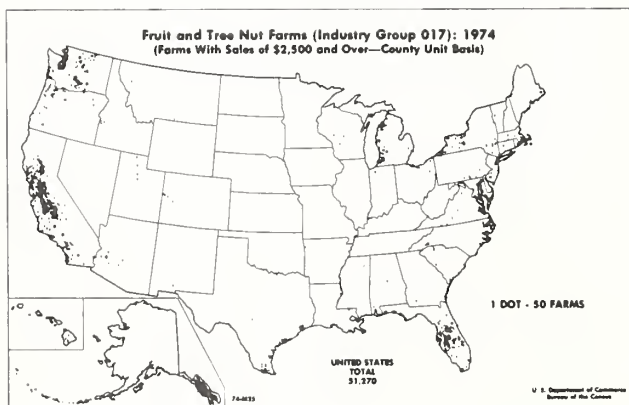
expected for lima beans, down 31 percent; beets, down 20 percent; sweet corn, down 10 percent; and tomatoes, down 16 percent. These smaller crops indicate tighter supplies of canned and frozen vegetables during the 1980/81 marketing year. In 1980, due to the large carryover of canned tomatoes from the 1979 crop, processors restricted the amount of tomatoes contracted for processing. Industry sources believe most growers negotiated prices ranging between \$47.00 and \$60.00 per ton for 1980/81, down moderately from last year's level.

**Potatoes:** The U.S. fall potato crop, estimated at 260.7 million cwt., is substantially smaller than in 1979 and the smallest in recent years. Grower prices for the fall crop are expected to be sharply higher than a year earlier.

**Dry Beans:** Grower prices this fall will average more than the \$21.50 per cwt. received during the fourth quarter of 1979, probably \$24.00 to \$26.00 because of strong foreign demand.

## FRUIT AND NUT FARMS OUTLOOK FOR 1981

The financial outlook for fruit and tree nut producers during the 1980/81 season may not be as favorable as the 1979/80 season. Substantially larger inventories of most processing fruit items will probably weaken prices somewhat. In addition, export demand for U.S. fruit is not expected to be as strong as last season reflecting larger foreign supplies.



The October 1, 1980 forecast for this year's non-citrus production, including 10 major fruits, is 13.0 million tons, up 2.4 percent from last year. Larger crop output is forecast for apples, tart cherries, grapes pears, prunes, and plums.

The final forecast of the 1980 commercial apple crop is a record 8.32 billion pounds (3.77 million metric tons), 3 percent larger than last year. Prices offered by apple processors are moderately to substantially below year-earlier levels and the demand for apples by major processors is expected to be weak

as current stocks of canned apple items are substantially larger than a year ago. The export market might not be as strong as last season due to larger apple crops in Canada and several European countries. However, exports to the Far East and Mideast still look favorable. Overall, apple prices might be under some downward pressure during the 1980/81 season which may result in financial difficulties for marginal producers.

The U.S. grape crop is forecast at a record 5.07 million tons, 2 percent larger than last year's record crop. Prices for fresh grapes have been higher than a year ago, reflecting good demand. Thus, prices received by grape growers during the 1980/81 season are expected to remain above year-earlier levels.

The final forecast of the U.S. pear crop for 1980 is 888,000 tons (805,000 metric tons), 3 percent greater than the 1979 crop. In response to larger supplies, prices for fresh pears are likely to be lower than last year's high levels.

A record citrus crop is forecast for the 1980/81 season. A record orange crop of 276 million boxes (1 percent more than last year) is expected. The California and Texas orange crops will be up by 9 percent and 39 percent, respectively. Arizona and Florida orange crops will decline by 20 percent and 2 percent, respectively. The grape fruit crop is forecast at 68.7 million boxes, down 2 percent from last season. Lemon production is expected to be 25 percent higher than last year. The relatively large citrus crop combined with substantially larger stocks of most processed citrus items is likely to further weaken citrus prices during the 1980/81 season.



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The 1980 crop of the four major edible tree nuts—almonds, filberts, pecans, and walnuts—is estimated at 606,900 tons (in-shell basis), 4 percent smaller than 1979. Filbert and walnut crops are forecast to be larger than last year, while the pecan crop will be 8 percent smaller. The almond crop is expected to be 10 percent below last year's record crop. With smaller production and favorable demand in prospect, prices for the 1980 edible tree nuts are expected to be firm and financial conditions favorable for producers.

### **1980 Financial Conditions**

Gross incomes for producers of most fruits and tree nuts were relatively good in 1979/80 resulting in

favorable financial conditions despite increased costs. Even with sharply lower prices for oranges, the value of the 1979/80 citrus crop totaled \$1.9 billion, up almost 6 percent from the previous season. Generally good demand during the 1979/80 season pushed prices of most noncitrus fruit and tree nuts up substantially above the 1978/79 level. Although preliminary figures for total noncitrus production in 1980 will not become available until January 1981, the total value of 1979 noncitrus fruit production amounted to \$3.3 billion, up 5 percent from 1978, while the total value of tree nut production increased to \$902 million, 42 percent more than 1978.

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